Valuation report

Rowad Al Khaleej International School (Dammam), Kingdom of Saudi Arabia

Prepared on behalf of **Al Rajhi Capital**

Date of issue: **31st December 2019**

Contact details

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KF ref: KFV109-2019

Executive summary

The executive summary below is to be used in conjunction with the valuation report to which it forms part and is subject to the assumptions, caveats and bases of valuation stated herein and should not be read in isolation.

Address	Rowad Al Khaleej International School, Az Zuhur, Dammam
Location	The property is located in the Eastern province of the Kingdom, within Dammam. More specifically the property is located along Anas Ibn Malik Street, in the Az Zuhur area which is the northern side of Dammam city.
Description	The property comprises of four buildings, which include, a staff accommodation building, Boys school, Girls school, and an additional building for the Girls school expansion. The four buildings have a total BUA of 25,797 sq m and are surrounded by a concrete wall that reaches approximately 2.5 metres in height.
Areas	BUA 25,797 sq m
Tenure	The asset is held with freehold title, under a series of title deeds articulated in the report
Tenancies	The client intends to acquire the asset subject to a proposed lease, which will be for 15 years in length, be full repairing and insuring (triple net) with the tenant being responsible for all opex, capex and repairs and maintenance. The rent will escalate at 7.5% every 5 years and there will be no provisions for termination. The lease will be guaranteed with a parent company corporate guarantee from the listed parent company, Al Khaleej Training and Education.
Planning	We have assumed that the asset has full planning consent as built.
Valuation Methodology	We have determined an "affordable" rent, which the school can reasonably afford to pay from its EBITDA based on our assessment of future performance. We have compared this to the proposed rent, which will be put in place by the vendor under the proposed sale and leaseback structure. The proposed rent is, in our opinion, considerably in excess of an affordable rent. Therefore, we have, in our discounted cash flow analysis, applied a greater risk premium to the "over rented" element of the lease rent, based on the theory that this rent could not be achieved should the operator not be in place and the school be let to another operator. We have then undertaken our valuation based on the 15-year lease structure being put in place.
Valuation considerations	• The rent proposed for the asset is well in excess of what we deem to be an affordable rent that the school operations can reasonably support. There is a danger that any default

would leave the landlord in a difficult position and with a school that would be very difficult to re-let. The entire deal is underpinned by the tenant company guarantees and covenant strength.

- The nature of the school is such that if there was any lease default and the properties became vacant, there would only be two options – a) re-let to another operator (assuming there was an operator willing to take the building or b) redevelop the site for another use.
- The Depreciated Replacement Cost of the asset is considerably lower than the Market Values reported as build costs for schools of this type are low in KSA and land values have fallen a lot in KSA over the last 3-4 years. What this means is that it is viable for another operator to acquire land and build a school in this area, if there was a market for another curriculum etc, which could be done affordably. The land cost etc would not be a barrier to a new market participant.
- The Dammam school is established and has a good historical performance.

Valuation date

31st December 2019

Market Value

We are of the opinion that the Market Value of the property on the basis of the proposed 15 year lease with AKTE may be expressed as:

SAR 227,600,000

(Two Hundred and Twenty Seven Million, Six Hundred Thousand Saudi Arabian Riyals).

MV analysis

Metric	Dammam
Net Initial Yield	8.77%
Market Value SAR per sq m BUA	8,800
Contracted Rent (SAR p.a.)	19,500,000

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Appendix 2 - Dammam School Photographs

Appendix 3 - Title Deed - Dammam

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1 Instructions

Engagement of Knight Frank Spain Saudia Arabia Real Estate Valuations Company

Instructions	1.1	We refer to our Terms of Engagement and General Terms of Business dated 26th February 2019, which were signed and returned to us on 31 March 2019, to provide a valuation report on Rowad Al Khaleej International School (Dammam), ("the property"). Copies of these documents are attached at Appendix 1.
	1.2	This valuation has been carried out in accordance with our General Terms of Business for Valuations ("General Terms of Business").
Client	1.3	Our client for this instruction is Al Rajhi Capital ("the Client").
Valuation standards	1.4	This valuation has been undertaken in accordance with RICS Valuation – Global Standards 2017, incorporating the International Valuations Standards, and RICS Professional Standards July 2017. References to "the Red Book" refer to either or both of these documents, as applicable.
Purpose of valuation	1.5	You have confirmed that this valuation report is required for the purposes of acquisition by Al Rajhi REIT as an income generating asset.
Conflict of interest	1.6	We confirm that we do not have any material connection or involvement giving rise to a conflict of interest and are providing an objective and unbiased valuation.
	1.7	We are acting as External Valuers, as defined in the Red Book.
Responsibility to third parties	1.8	Our valuation report is only for the use of our Client and no liability is accepted to any third party for the whole or any part of its contents.
Disclosure & publication	1.9	Neither the whole nor any part of this valuation nor any reference thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form or context in which it may appear.
Limitations on liability	1.10	No claim arising out of or in connection with this valuation report may be brought against any member, employee, partner or consultant of Knight Frank Spain Saudi Arabia Real Estate Valuation Company ("Knight Frank"). Those individuals will not have a personal duty of care to any party and any claim for losses must be brought against Knight Frank.
	1.11	Knight Frank's total liability for any direct loss or damage caused by negligence or breach of contract in relation to this instruction and valuation report is limited to the amount specified in the Terms of Engagement letter, a copy of which is attached. We do not accept liability for any indirect or consequential loss (such as loss of profits).
	1.12	The above provisions shall not exclude or limit our liability in respect of fraud or for death or personal injury caused by our negligence or for any other liability to the extent that such liability may not be excluded or limited as a matter of law.
Expertise	1.13	In accordance with VPS3 of the Red Book, the valuer, on behalf of Knight Frank, with the responsibility for this report is Stephen Flanagan MRICS, RICS Registered Valuer.

We confirm that the valuer meets the requirements of the Red Book, having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently.

Vetting 1.14 This report has been vetted as part of Knight Frank's quality assurance procedures.

Scope of enquiries & investigations

Inspection 1.15 We were instructed to carry out an internal inspection of the property. Our inspection of the property was undertaken on 3rd March 2019 (Dammam) by Saud Sulaymani, and Shehzad Jamal. We have assumed there have been no material changes to the asset since our inspection.

Investigations 1.16 The extent of enquiries/investigations made is set out in our General Terms of Business. In carrying out this instruction, we have undertaken verbal / web based enquiries referred to in the relevant sections of this report. We have relied upon this information as being accurate and complete.

1.17 As previously agreed with you, the enquiries undertaken by us in this instruction have been limited in the following respect:

Information provided 1.18 In this report we have been provided with information by Al Khaleej Training and Education, its advisors and other third parties. We have relied upon this information as being materially correct in all aspects.

1.19 In particular, we detail the following:

- Information relating to the extent of the property site area, produced by Al Khaleej Training and Education
- Information relating to the property built up area, produced by Al Khaleej Training and Education
- Information relating to the performance of the property in 2017 and 2018 only, from Al Khaleej Training and Education.
- We did request detailed financial breakdowns for each asset, this could not be provided in full. We have therefore had to make a number of assumptions, which place a greater degree of uncertainty and subjectivity on our projections and valuation.

A schedule of documentation provided is attached in Appendix.

1.20 In the absence of any documents or information provided, we have had to rely solely upon our own enquiries as outlined in this report. Any assumptions resulting from the lack of information are also set out in the relevant section of this report.

Valuation bases

1.21 In accordance with your instructions, we have provided opinions of value on the following bases:-

Market Value (MV) 1.22 The Market Value of the freehold interest in the property in its current physical condition, subject to a proposed 15 year lease (terms to be defined within).

Market Rent (MR) 1.23 The Market Rent of the property. We have undertaken our own analysis of the school performance based on the data provided to date. In the absence of detailed information, assumptions on school performance were made in order to determine what the school can generate by way of EBITDA and thus what, as an operational business, it can realistically afford to pay as an "affordable rent" for the premises.

Valuation date 1.24 The valuation date is 31^{st} December 2019.

2 Rowad Al Khaleej International School, Dammam

Location

Rowad Al Khaleej International School, Dammam

2.1 As shown in the Google Earth image below, the property is located in the Eastern province of the Kingdom, within Dammam. More specifically the property is located along Anas Ibn Malik Street, in the Az Zuhur area, which is the northern side of the city.

The immediate area to the north west of the property comprises vacant land plots. The Az Zuhur area is developed of mostly low rise residential property with show rooms on the ground floor of buildings that have frontage to main roads.

The Open Arab University is located to the south of the property and Marina Mall is less than 2 km to the west.

Source: Google Earth

2.2 The street plan below shows the location of the property.

Source: Google Earth

Site

Site area 2.3 The site which the property is developed over comprises four parcels of land forming one flat rectangular site that extends to 20,213 sq m.

Site plan 2.4 The property is identified on the site plan below, showing our understanding of the property coloured in red.

Source: Client

Description

2.5 The property comprises of four buildings, which include, a staff accommodation building, Boys school, Girls school, and an additional building for the Girls school expansion. The four buildings have a total BUA of 25,797 sq m and are surrounded by a concrete wall that reaches approximately 2.5 metres in height.

2.6 Surface parking is provided on the ground floor for school buses and staff vehicles. There is additional parking contained within the basement of the Girls school's expansion building.

2.7 The Girls school is formed by two buildings, where an interconnecting bridge on the first floor provides access between them. The initial Girls school building was built in 2012 and extends to 5,025 sq m of BUA. The Girls school expansion building completed construction in 2015 and has a total BUA of 10,751 sq m.

The initial Girls school building is built over ground, first and second floor and the expansion building is similar but includes basement level. The basement level in the expansion building contains 75 parking spaces with a disabled access ramp that leads to an elevator.

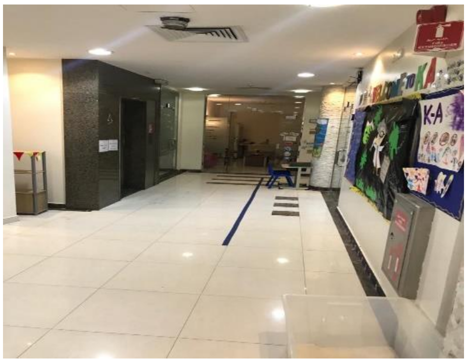
The Girls school comprises of classrooms, including, science labs, computer rooms, multi-purpose room, a library and a large hall.

2.8 The Boys school completed construction in 2012 and has a total BUA of 5,025 sq m, built over ground, first and second floor. On the ground floor there is a central open atrium reaching up to the second floor. The Boys school comprises of a classrooms, a library, an art room, and prayer room. There is also a cafeteria and an outdoor terrace that incorporates wooden benches and tables.

The principal's office is located on the first floor, along with a series of classrooms, a multi-purpose room, an art room and toilets. The central staircase provides access to the first floor along with two additional staircases at opposing sides of the property.

The second floor comprises of laboratories, classrooms and a councillor's office.

2.9 The staff accommodation building is built over basement, ground and three upper floors. It completed construction in 2013 and has a total BUA of 4,996 sq m. The basement comprises of a large lounge area, a laundry room, controller room, driver/worker rooms, pump room and septic tanks. The ground and upper floors comprise of fully furnished apartments. There is also a swimming pool, gym and lounge area on the ground floor.




Accommodation

Measurement 2.10 We have relied upon floor areas provided to us by AKTE. No further verification has been undertaken. These are as follows:

Floor areas: Boys and Girls Schools

Table 1: Floor Areas

Unit	Description	Sq m	Sq ft
Ground	Facilities	3,482	37,480
First	Educational	3,284	35,349
Second	Educational	3,284	35,349
Total		**10,050**	**108,178**

Source: Client

Floor areas: Girls School Expansion

Table 2: Floor Areas

Unit	Description	Sq m	Sq ft
Basement	Parking	3,465	37,297
Ground	Parking and educational	3,042	32,744
First	Educational	1,768	19,031
Second	Educational	2,476	26,652
Total		**10,751**	**115,724**

Source: Client

Floor areas: Staff Accommodation

Table 3: Floor Areas

Unit	Description	Sq m	Sq ft
Ground	Residential and facilities	1,426	15,349
First	Residential and facilities	1,426	15,349
Second	Residential and facilities	1,426	15,349
Third	Residential and facilities	.718	7,729
Total		**4,279**	**53,776**

Source: Client

2.11 The valuation given does not include any chattels or contents within the property.

Services

2.12 In accordance with the General Terms of Business enclosed at Appendix 1, no tests have been undertaken on any of the services.

2.13 We have assumed for the purposes of this valuation that mains gas, water, electricity, drainage and telecommunications are all available to the property.

Legal title

Tenure

2.14 We have been informed that title to the property is freehold.

Legal Documentation

2.15 The pertinent legal details are as follows:

Title Deed No.	Area sq m	Owner
430122001629	3,000	Al Khaleej Training Company
330122001630	3,750	Al Khaleej Training Company
630111004907	3,364	Al Khaleej Training Company
930111004905	10,099	Al Khaleej Training Company
Total	**20,213**	

Source: Client

2.16 It is assumed that there are no onerous restrictions or outgoings contained within the title that would impact on the valuation provided within this report.

2.17 These assumptions should be verified by your legal advisors. If they prove incorrect, any variation may have a material impact on value and should be referred back to us for further comment.

Covenants

2.18 We have assumed that the property is not subject to any unusual or onerous covenants, restrictions, encumbrances or outgoings.

Tenancies

Proposed heads of terms

2.19 We have been informed by the Client that the lease will be on a triple net basis whereby all the maintenance and insurance expenses are borne by the tenant.

We understand that the lease will commence in 2019, however we have not been informed of the exact start date and end dates. We understand that the lease is for 15 years and is subject to a contracted rental increase of 7.5% every 5 years.

We set out below the salient points:

Item	Description
Demise	Rowad Al Khaleej International School, Dammam
Lessor	TBC
Lessee	AKTE
Lease commencement	2019
Lease expiry date	2034
Term	15 Years
Lease rent	SAR 19,500,000 per annum
Escalation	7.5% every 5 years

Source: Client

2.20 We also understand that the Property does not contain any unusual or unduly onerous encumbrances or constraints which would detrimentally impact its value or marketability.

Condition

Scope of inspection

2.21 The property was inspected on 3rd March 2019 by Saud Sulaymani and Shehzad Jamal, Partner. Our inspection was on a visual basis only, both in internally and externally.

2.22 During our inspection, no major defects or serious items of disrepair were noted which would be likely to give rise to a substantial capital expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

2.23 At the date of inspection, the building appeared to be in a generally reasonable state of repair commensurate with its age and use. No urgent or significant defects or items of disrepair were noted which would be likely to give rise to substantial expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

Ground conditions 2.24 We have not been provided with a copy of a ground condition report for the site. We have assumed that there are no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

Environmental considerations

Contamination 2.25 As stated in the General Terms of Business, investigations into environmental matters would usually be commissioned from suitably qualified environmental specialists. Knight Frank is not qualified to undertake scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor do we undertake searches of public archives to seek evidence of past activities which might identify potential for contamination.

2.26 Some of the key issues relating to a building's sustainability are:

- land use
- design and configuration
- construction materials and services
- location and accessibility considerations
- fiscal and legislative considerations
- management and leasing issues

2.27 From a value perspective, sustainability is likely to be a long term issue and its relative importance will change over time.

Planning

2.28 We understand that the property as built has full planning consent. We have been provided with a copy of the construction licenses detailing consents for the schools built and for the residential building, amounting to a total BUA of 25,797 sq m.

Highways and access

Highways 2.29 We have assumed that there are no current highway proposals in the immediate vicinity likely to have a detrimental effect upon the property within the foreseeable future.

Access 2.30 In reporting our opinion of value, we have assumed that there are no third party interests between the boundary of the property and the adopted highways and that accordingly the property has unfettered vehicular and pedestrian access.

2.31 We have assumed that there are no issues relating to visibility splays which may impact upon the use or proposed use of the property.

3 Market analysis

KSA Economic overview

Key Findings

3.1 Economic Factors

- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the last five years, collectively contributing to 23 percent of the GDP in 2017.
- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This trend is largely due to the sharp decline in oil prices in recent years. The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has been declining as a share of GDP over the past 5 years.
- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However, oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price. In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. This figure has rebounded to 1 percent in 2017.
- Looking forward, the GDP growth rate in KSA is not going to reach the levels that it once was in the recent past. The IMF reports that GDP growth will recover to 1.1 percent in 2018, and projects that it will further improve to 1.6 percent in 2019 before rebounding to around 2.0 percent in 2020.
- These projections imply that the historic growth in the real estate sector will also be more muted than in the past, making real estate investment a riskier endeavour. This is despite government plans of the development of the "economic cities", initiated with around USD 70 billion of seed investment with the aim to reduce oil dependency, as there are concerns that these plans may be affected by the delays and scaling back of many real estate and infrastructure projects.
- Efforts by the government to diversify the economy and increase the non-oil sector share is expected to lead to an increased focus on tourism and hospitality. The aforementioned sectors are expected to get a further boost from the government's effort to be transparent, encouraging direct foreign investment.

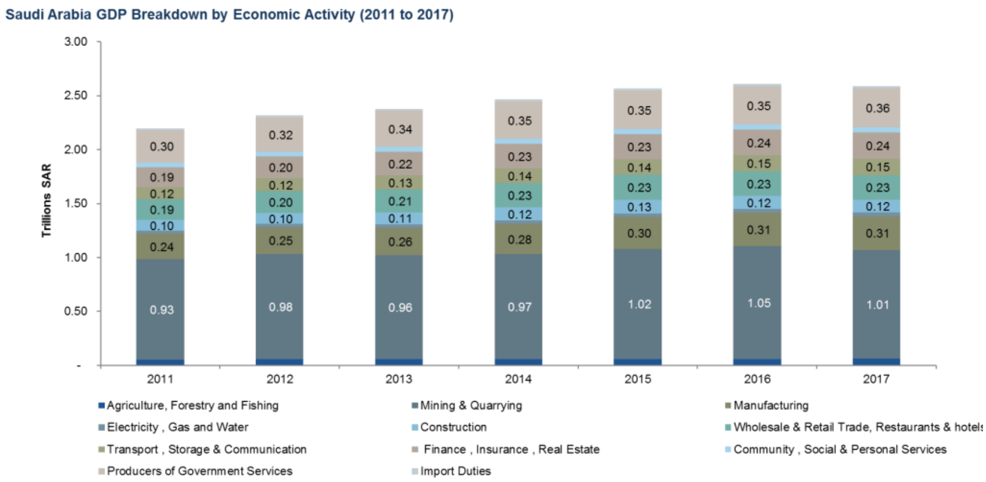
3.2 Demographic Factors

- The population of Saudi Arabia stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020. In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population.
- As shown by the forecasts, a large and growing population will continue to drive demand for goods and services in the longer term. The population segmentation

shows that over half the population is concentrated in two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals. The average unemployment rate for the kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in-line with the average long-term unemployment rate which stands at 5.7 percent for last 15 years. However, the total unemployment rate of Saudi Nationals stood at 12.3 in 2016, the discrepancy arising due to the fact that expatriates require employment in order to have residency in the country. This has spurred "Saudization" policies in 2016 that will reduce Saudi unemployment, but also significantly reduce the growth of the expatriate population.
- These demographic factors have overall positive implications for real estate investment – population numbers will continue to grow and increase demand in the residential, retail, and tourism sectors. The reduction of Saudi unemployment will increase overall household incomes as Saudis are costlier labour than non-Saudis and do not repatriate their incomes and are thus more likely to invest in the country. This could potentially counteract the expected decrease in the population growth.

3.3 Saudi Arabia GDP Breakdown by Economic Activity (2011 to 2017)



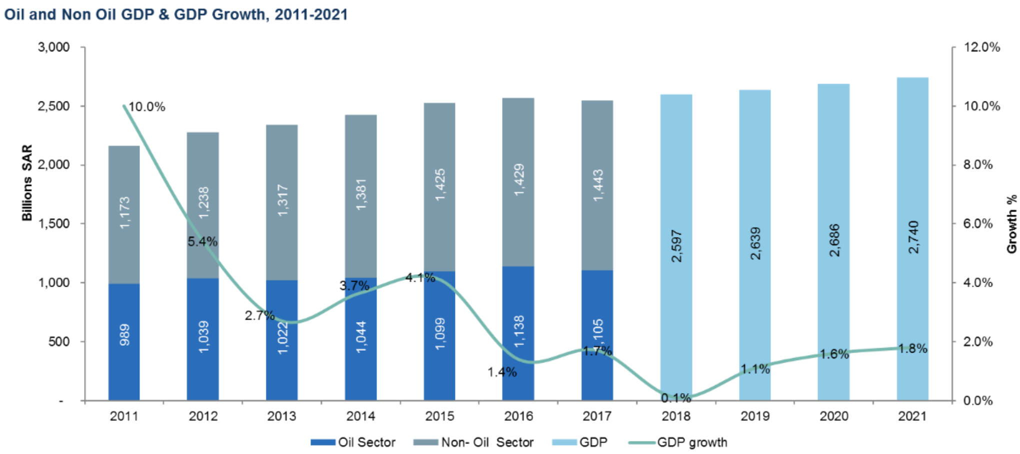
Source: General Authority for Statistics

- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This decline was largely attributable to the sharp decline in oil prices in recent years.
- The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has steadily been declining as a proportion of overall GDP over the past 5 years.
- This has been attributable not only to the declining oil prices in recent years, but also to a conscious effort to diversify the economy away from oil dependence. The

kingdom has plans to strengthen the performance of its non-oil sectors – such as the tourism sector - over the next decade.

- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the five year period, collectively contributing to 23 percent of the GDP in 2017.

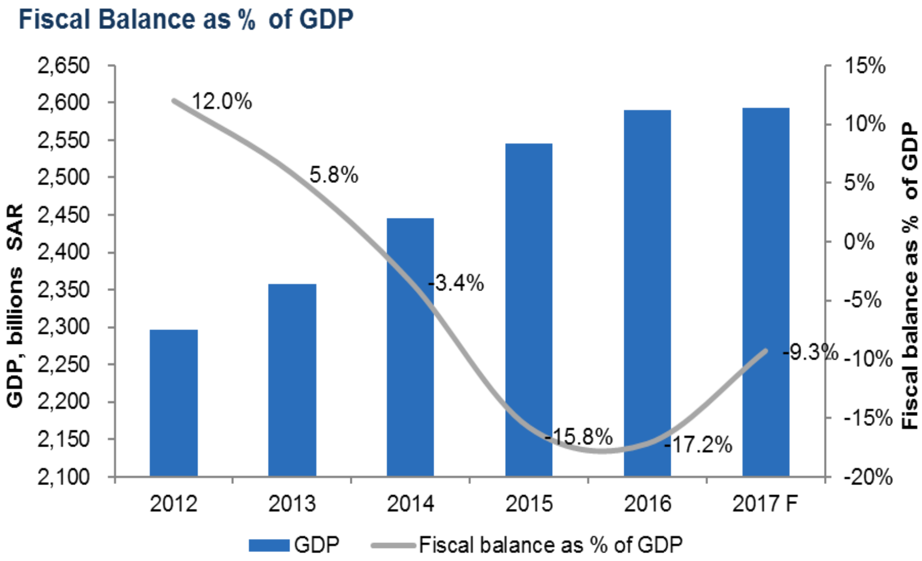
3.4 Oil and Non-Oil GDP & GDP Growth, 2011-2021



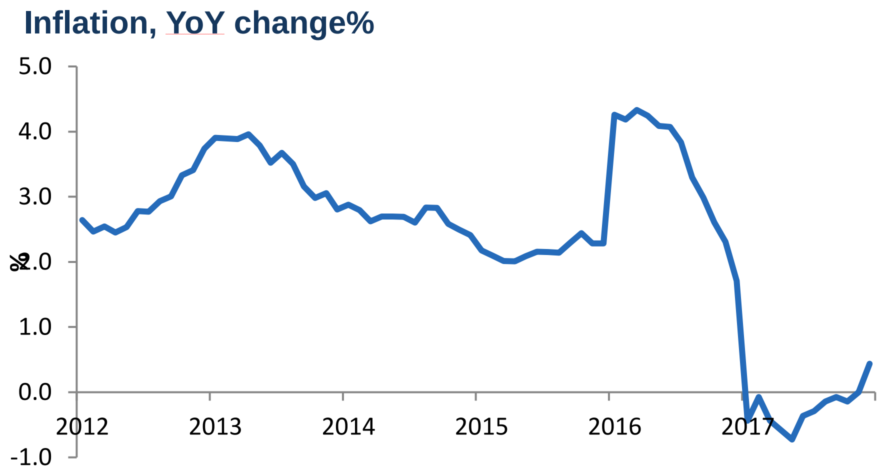
Source: GAS, IMF

- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price.
- Low oil prices have opened up large twin budget and current account deficits. The country's large savings means the adjustment is likely to be gradual and experts suggest that fears of the dollar peg being abandoned have been overdone.

3.5 Fiscal Balance as % of GDP



Source: IMF



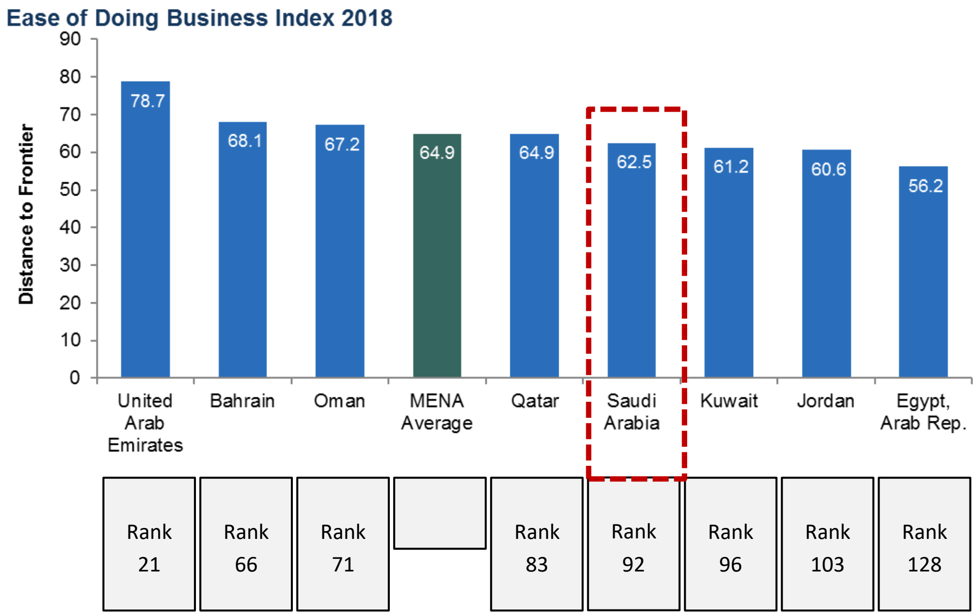
Source: Macrobond

- Given the extent to which Saudi Arabia's economy is reliant on the hydrocarbon sector, the sharp fall in oil revenues, has squeezed the kingdom's budget surplus which has slipped into a deficit mode.
- The government has taken several fiscal consolidation measures to curb spending and diversify revenues in an effort to rebalance the budget and adjust to the realities of lower oil prices.
- Fiscal consolidation continued into 2017 with the introduction of the excise tax and the tax on dependants for expatriates. Coupled with an upward correction in oil prices, these measures have helped to alleviate pressures on the country's fiscal

position with the deficit anticipated to have tightened to 9.3% of GDP in 2017 according to the IMF estimates.

- A weak economic environment has been weighing on inflation levels in Saudi Arabia. The inflation rate in 2017 slipped into negative territory as the continued effects of the low oil price weighed negatively on inflation levels and economic activity in the kingdom.
- Inflation rate regained some momentum starting November 2017. Inflation is expected to trend upwards due to the recently introduced excise taxes and the implementation of a VAT regime in early 2018.
- The Saudi budget announced for 2018 showed that the government has started to loosen its fiscal policy. This measure is likely to provide a stimulus to economic growth and inflation going forward.

3.6 Country Competitiveness

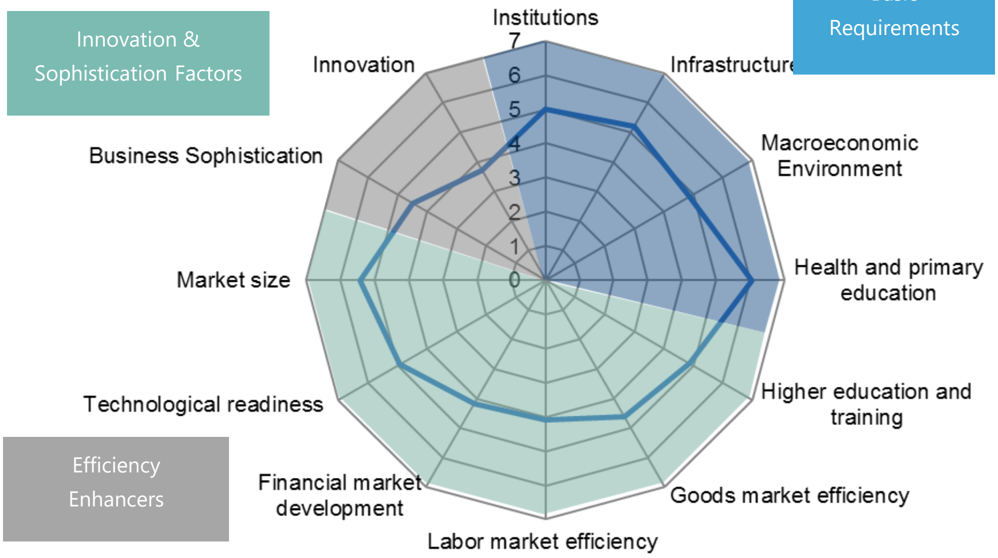


Source: World Bank Group

- In the 2018 Ease of Doing Business Survey, economies are assessed in ten different categories to determine how easy or difficult it is to open and run businesses. In the latest report, Saudi Arabia ranked 92th globally). The kingdom scored a total of 62.5 points in comparison to the 64.9 MENA average.
- Saudi Arabia performs well when it comes to issues such as "dealing with construction permits" (rank 38), "getting electricity" (rank 59) and "registering property" (rank 24).
- However, in terms of "resolving insolvency" (rank 168), "starting a business" (rank 135), Saudi Arabia still lags behind many other nations.

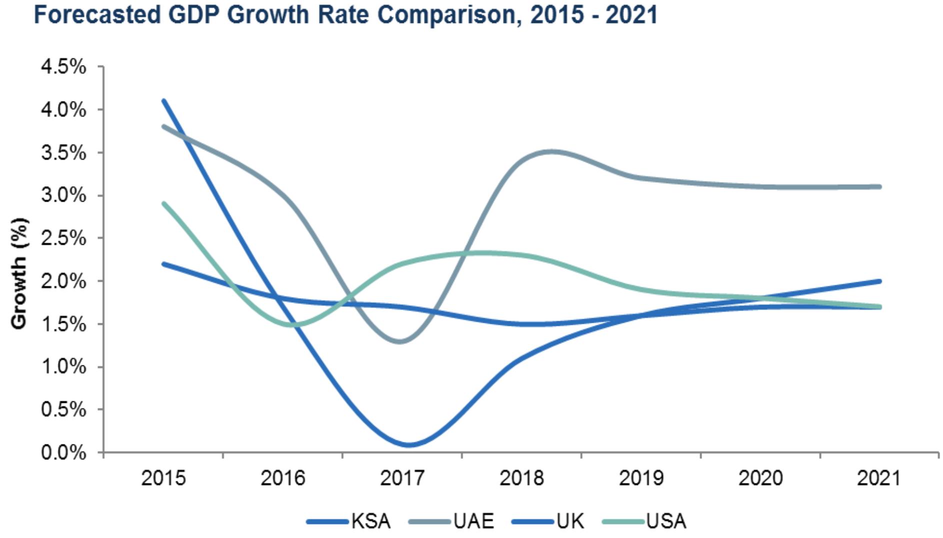
- Saudi Arabia's overall ranking suggests that it is still a relatively opaque market, albeit there have been government efforts to increase transparency in order to attract greater foreign direct investment.

Country Competitiveness Index, 2017-2018

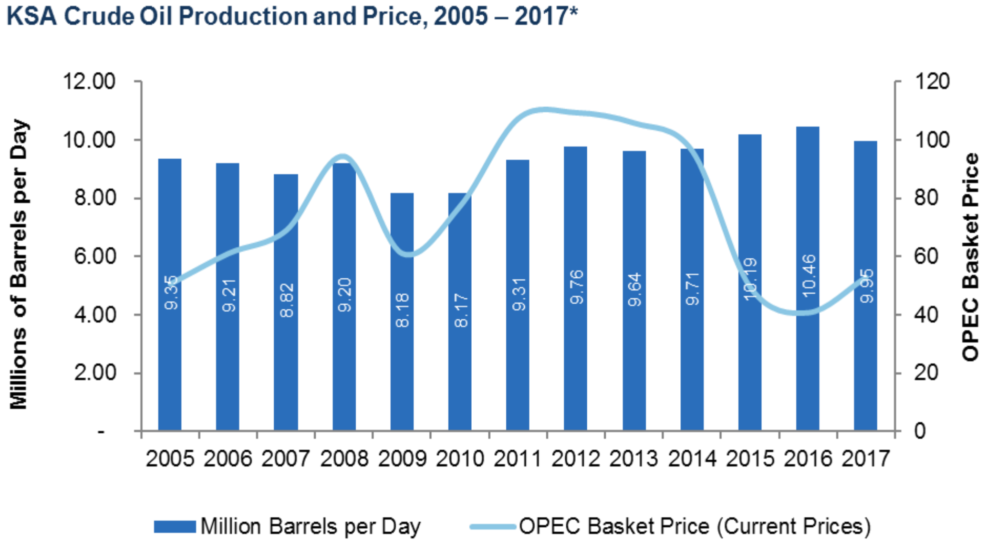


- The Global Competitiveness Report 2017-2018 ranks 137 economies in order to assess the drivers of productivity and economic development.
- The report ranked Saudi Arabia in 30th place, scoring strongly in the category of "institutions" at 26th place. The economy ranked 58th in terms of "macroeconomic environment", an upturn from previous years.

3.7 GDP, Fiscal Budget and Oil Statistics



Source: IMF October 2017 Database



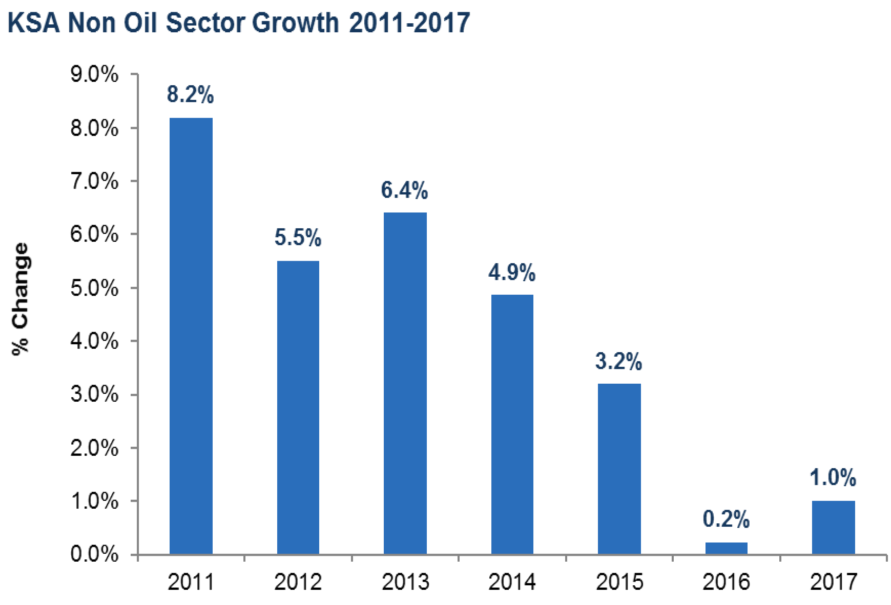
Source: SAMA, OPEC, Macrobond

* 2017 average daily oil production excluding December

- GDP growth in Saudi Arabia has averaged 2.4 percent per annum between 2013 and 2017. This compares with an average of 3.2% for the UAE and is higher than the average for developed economies such as the US and the UK, which posted average growth of 2.1 percent over the same period.
- Saudi Arabia aims to diversify the economy from its dependence on oil, create more jobs and spread wealth to different regions. A key pillar of government plans is the development of the "economic cities", initiated with around USD 70-billion of seed investment.

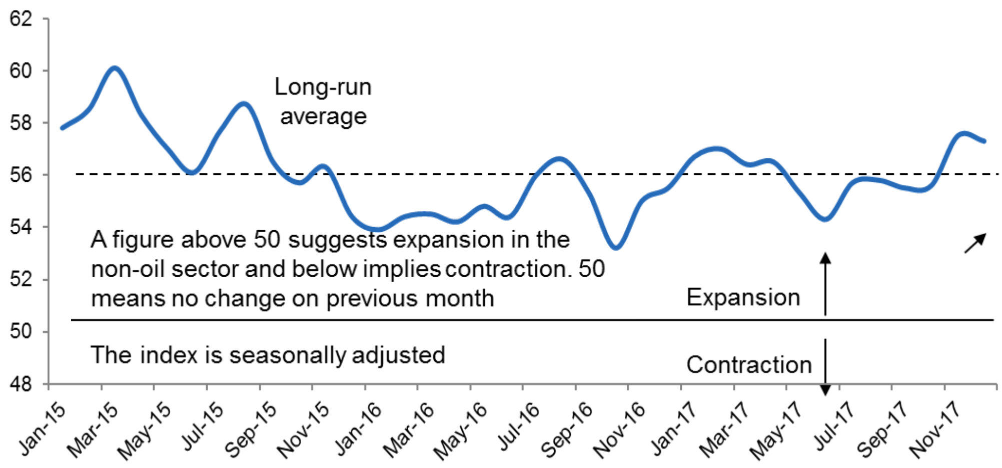
- For example the development of King Abdullah Economic City, which cost is estimated at USD 86 billion, is a key part of this diversification drive toward making Saudi Arabia a knowledge based economy rather than an extractive economy reliant on hydrocarbons.
- Nevertheless, the forecasted GDP growth between 2017 and 2021 stands at an average of 1.3 percent, lower than the UAE's 2.8 percent annual average forecast and the US's 2.0 percent annual average forecast, and only marginally lower than the UK 1.6% anticipated growth.
- In the 2017 budget, as in years prior, education, health & social affairs were given priority, with combined allocation for these sectors equivalent to nearly 40% of total national spending.
- The kingdom's total oil production stood at 10.46m barrels per day in 2016 – a figure which has decreased to 9.95m in 2017 in line with Saudi Arabia's commitment to the OPED-led supply reduction pact.
- OPEC's Basket Price fell from its peak of USD 109.45 in 2012, to its lowest point in a decade in 2016 at USD 40.76. It rebounded to an average of USD 52.92 in 2017.
- While the drop in prices has reduced government revenues, Saudi Arabia has favoured adjusting production in 2017 in line with supply management by OPEC.

3.8 Non-Oil Sector Performance



Source: GAS

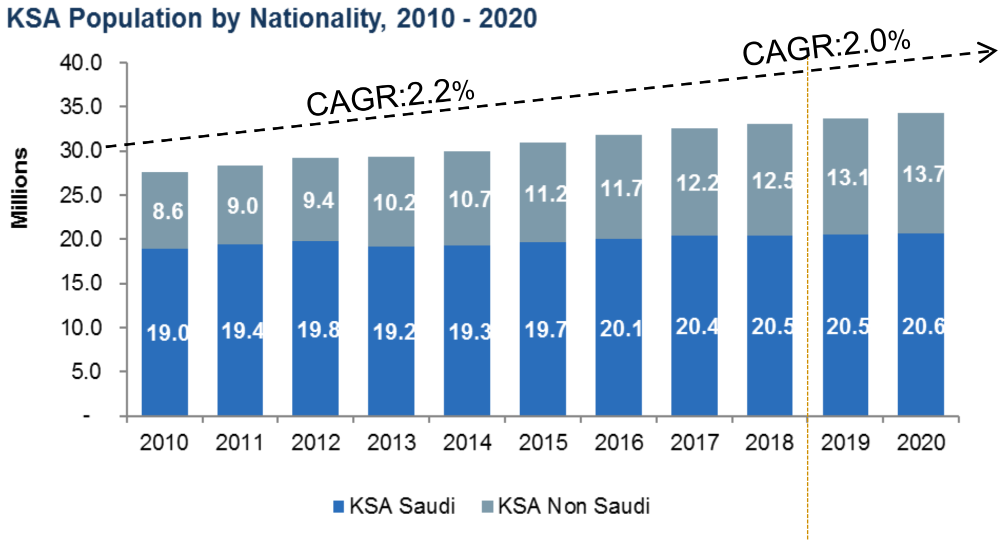
KSA Emirates NBD Purchasing Managers' Index, Jan 2015 – Dec 2017



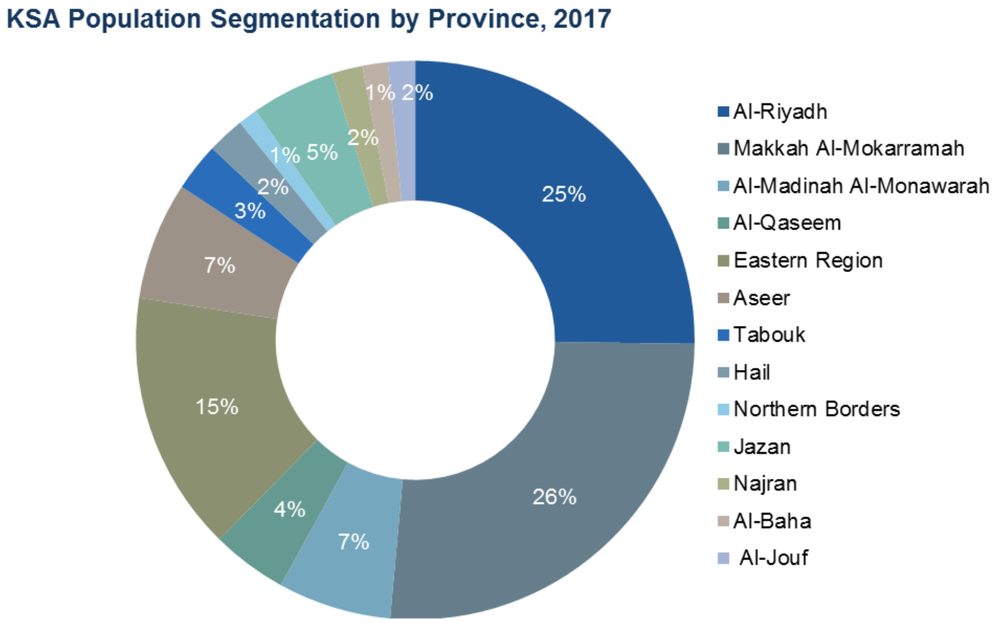
Source: Emirates NBD

- In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. The figure has rebounded to 1% in 2017.
- In 2017, the government has been gradually relaxing some austerity measures that were introduced in 2016 and which have drastically affected the public sector, particularly when considering the fact that two thirds of the Saudi workforce operate within this sector. This has included the reestablishment of all allowances, bonuses and financial benefits for civil servants and military personnel that have been previously cancelled or amended.
- Emirates NBD's Saudi Arabia Purchasing Managers' Index (PMI), which covers the entire non-oil private sector, fell to its lowest level at 53.2 in October 2016. With the value remaining consistently above the 50 level (no change mark) this suggests that there has been continued growth in the non-oil sector.
- In late 2017, the PMI has surpassed the long-run average of 56, registering two strong consecutive readings (57.5 in November 2017 and 57.3 in December 2017). This indicates an improvement in the performance of non-oil sectors.
- The PMI data provides evidence about the linkages between the nation's oil and non-oil economies. The PMI registered one of its lowest reading in January 2016 (53.9) when oil prices plunged to a decade low.
- While in the short term, growth in the non-oil sector is largely dependent on oil revenues and although austerity measures will not prove to be popular, they do show that the necessary steps are being taken in KSA for diversification.

3.9 **Population and Demographics**



Source: SAMA, IMF

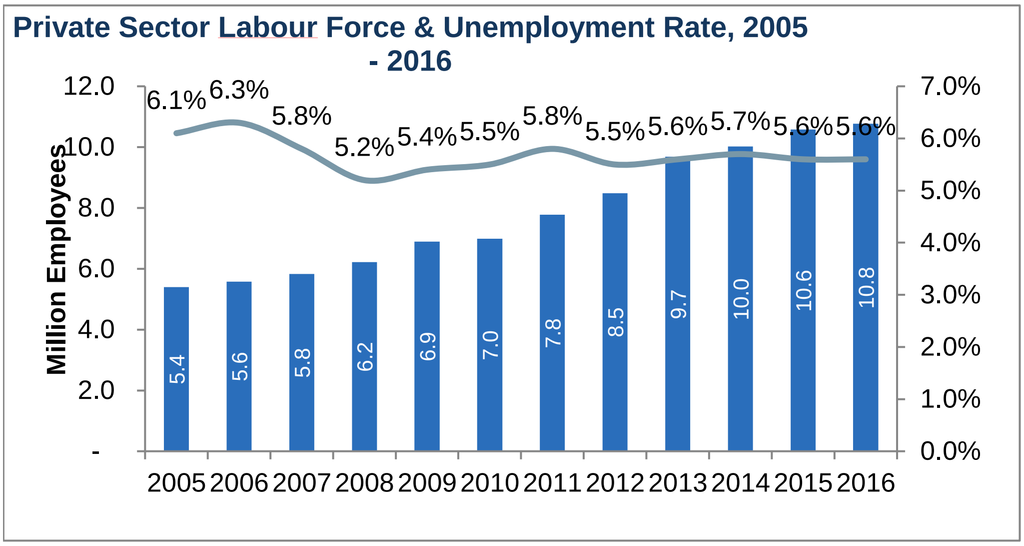


Source: GAS

- Saudi Arabia accounts for over 50% of the total population of the GCC, or roughly five times more populous than any other GCC country. According to official figures, the population stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020.

- In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population. Hence, this implies that aggregate demand for products and services does not primarily stem from the expatriate workforce.
- Despite the large weighting of Saudi nationals to expatriates, there are still a large number of resident foreign workers in the kingdom. Recognising this, the authorities announced the development of a Saudi green card, which would be available to foreign investors and highly qualified expatriates. Though not yet implemented, the green card would enable foreigners to have residency in the kingdom, much like the current system in the United States, which would have positive implications for residential demand.
- The green card system would not only generate revenues through fees, but also reduce expatriate remittances, which would in turn stimulate the local economy.
- As shown by the population forecasts, a large and growing population will continue to drive demand for goods and services in the short to medium term.
- The population segmentation shows that over half the population of the kingdom is concentrated into two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

3.10 Employment Trends

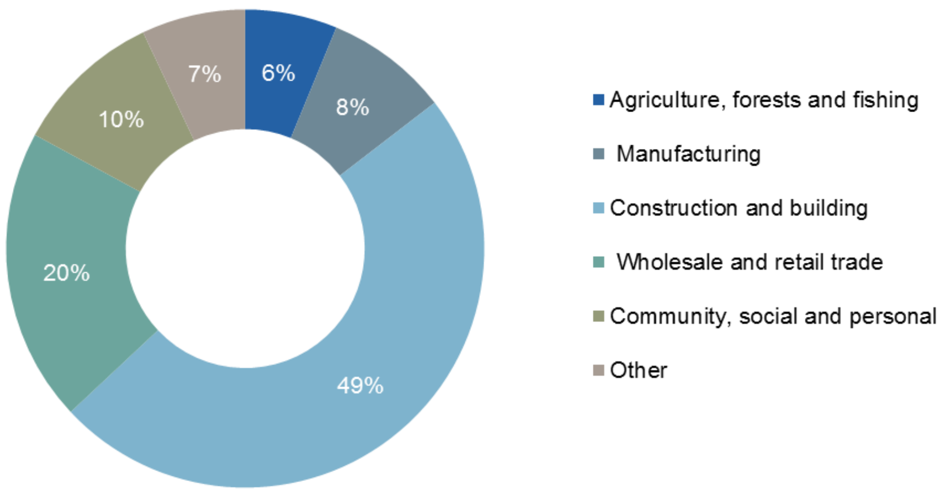


Source: SAMA, IMF

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals.
- The average unemployment rate for the Kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in line with the average long-term unemployment rate which stands at 5.7 percent for the last 15 years.

- However these figures can be misleading; according to research by Jadwa Investment, the total Saudi national unemployment rate stood at 12.1 percent in the third quarter of 2016. This was attributable to the rise in university graduates and the cessation of some government projects as per the minister of labor and social development.
- Whilst the headline figures of Saudi national un-employment look high in relation to developed economies, the accuracy and transparency of data makes this statistic difficult to analyse.
- As set out above, a key issue for the government will be providing sustainable and rewarding jobs to the growing population. The establishment of the Economic Cities is part of this drive to create a knowledge based economy which in turn will create jobs for nationals.
- The government also engaged in labour market reforms to address job creation, namely introducing the Nitaqat program. Launched in September 2011 the campaign aims at the Saudisation of the workforce. The program combines incentives that encourage firms to hire Saudis and sanctions for non-compliant ones.
- More recently, and stemming from the Saudi Vision 2030, the 15 year National Transformation Plan (NTP) focuses on integrating Saudi women in the labour market.

KSA Private Sector Employment by Economic Activity, 2016



Source: SAMA

- In 2016, the construction and building sector accounted for the largest proportion (49 percent) of private sector jobs in Saudi Arabia. This was followed by wholesale and retail trade (20 percent) and community, social and personal sectors (10 percent).

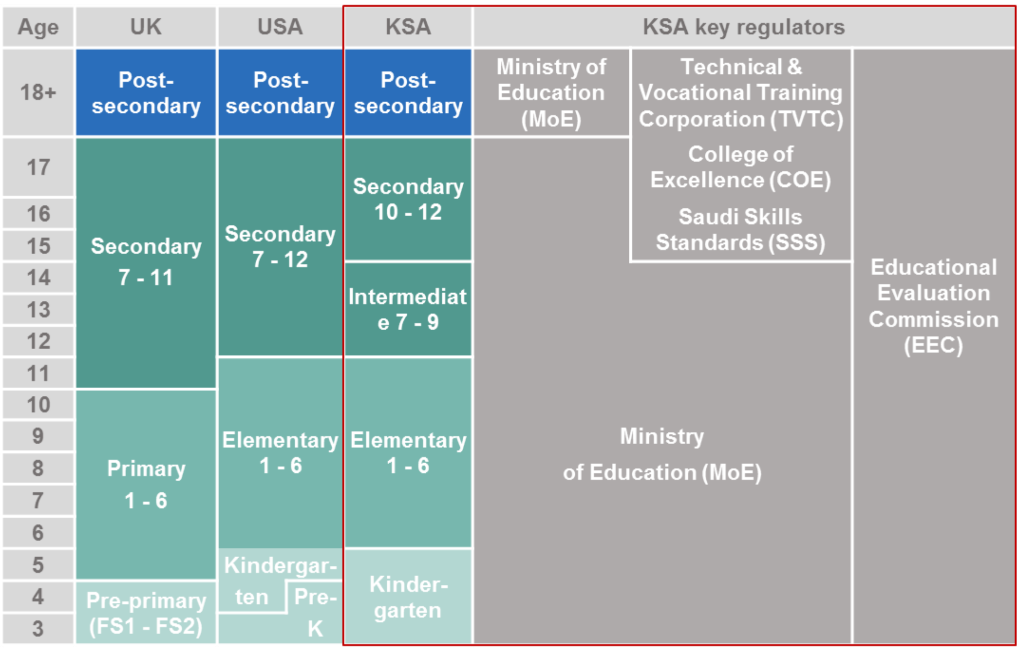
- The wholesale and retail trade sector accounts for a significant proportion (20 percent) of total employment in the kingdom – which points to the importance of the tertiary sector in Saudi Arabia's economy
- Males account for 86 percent of the total workforce.

Education Market Overview

Regulatory overview

3.11 Education system in the KSA is regulated by two main authorities:

- Ministry of Education (recently merged with Ministry of Higher Education) (i) implements standards and policies for the KSA's educational system (public and private schools, colleges and universities), (ii) responsible for general education at all levels, including special education, adult education, teacher training and literacy, (iii) responsible for the supervision, coordination and follow-up of post-secondary policy and programs, supervises universities and higher education colleges, (iv) provides support and services to universities and colleges.
- Technical and Vocational Training Corporation is responsible for developing technical and vocational programs in response to national manpower requirements, coordinates and implements the Kingdom's manpower development plans and supervises all related training centers and institutes.
- The KSA's school education system can be divided into the following education cycles/grades:
  - Kindergarten – KG 1 and KG 2
  - First (elementary) stage – Grade 1 to Grade 6
  - Second (intermediate) stage – Grade 7 to Grade 9
  - Secondary – Grade 10 to Grade 12
- The chart below presents the education system and responsibilities for each regulatory authority.



Source: Knight Frank research

Growth drivers 3.12 **Student Population**

- Around one third of population in the KSA is within school going age (5 – 18 years) creating a strong platform for establishing new schools. It is estimated that this segment of population will grow faster than the total population growth, demonstrating potential for absorbing student seats supply.

Increasing awareness of education

- Increasing enrolment rates during the past years demonstrates growing awareness of people towards education. Moreover, parents in the GCC region have started to pay more attention to attributes such as type of curriculum, a school's reputation, quality of teachers, learning environment for children, the preservation of native culture, etc. before choosing the school for their children.
- Additionally, existing gap in the quality of education between public and private sector pushes parents preferences towards private schools despite higher tuition fees.

Government Initiatives and support

- The government of the KSA places emphasis on strengthening the education sector in the country, allocating 19.6% of the Federal Budget 2018 towards education.
- Education sector is considered as one of the key mile stones of Vision 2030 and National Transformation program 2020. As part of the initiatives, the KSA's government plans to increase kindergarten enrolments, improve training and development of teachers, students' marks and core skills, upgrading curriculums

and teaching methods. The initiatives seek to utilize the human capital of the nation and in order to do so, significant investment is required to help boost the education sector of the KSA. While public funding is being channelled, the private sector participation is also being encouraged and facilitated - value of the private market is expected to more than double from current USD5 billion to USD12 billion in 2023.

Key challenges 3.13 **Government Regulations**

- The government policies in the KSA are non-transparent and the education market is not liberal, posing challenges for investment. During the past few years, the KSA government has introduced several regulations significantly effecting the operational dynamics of education providers:
  - minimum wages law for Saudi teachers working in the private sector (SAR 5,000, increased this year to SAR 5,800 per month) was imposed leading to many international schools to increase their yearly tuition fees. This negatively reflected on the student enrollment rates forcing parents to transfer their children to more affordable schools
  - existence of Saudisation policy makes it mandatory for the operators to hire Saudi nationals teachers, who often demonstrate quality issues
  - tuition fees are regulated by the government and subject to approval by the MoE based on different school parameters such as the quality of infrastructure, teachers, modern facilities, Saudisation, safety standards, etc. This could affect an operator's profitability if tuition fee increase approvals are declined by the MoE.

Workforce Demand and Supply

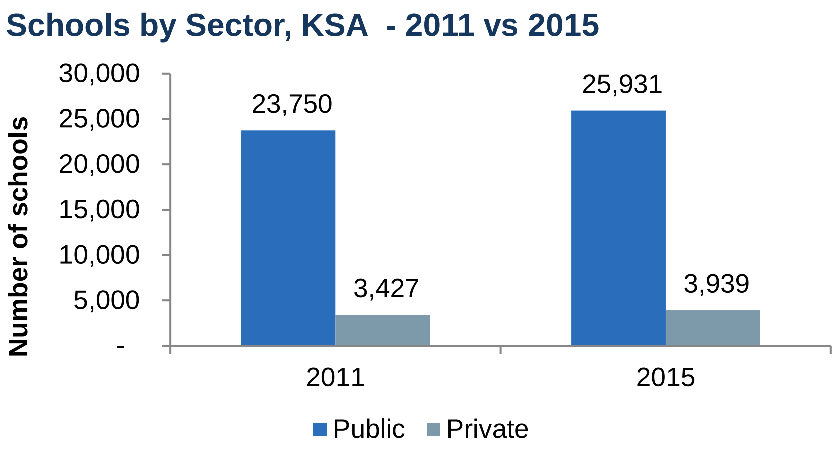
- The private education sector workforce in the KSA is currently facing a supply and demand imbalance – acute shortage of teaching staff, especially in the private sector where the requirement for skilled teachers is higher because of higher education standards. Average retention period for teachers is 2 – 3 years leading to increasing recruitment costs for operators.
- The new licensing requirement as well as the current hiring system (the visa/immigration requirements) are challenging, while pay scales are equally not attractive, discouraging the younger generation to become teachers.

High capital expenditure requirement

- Establishing educational institutes require significant amount of monetary resources and manpower. Consequently, this restricts and hinders the opportunity to enter in to the education sector.
- Furthermore, increasing requirements established by the MoE and Civil Defence relating to schools' infrastructure, health and safety standards and prohibition to operate in rented or not purposely built school premises considerably reiterate the issue of heavy front ended investment required for new entrants.

KSA education overview

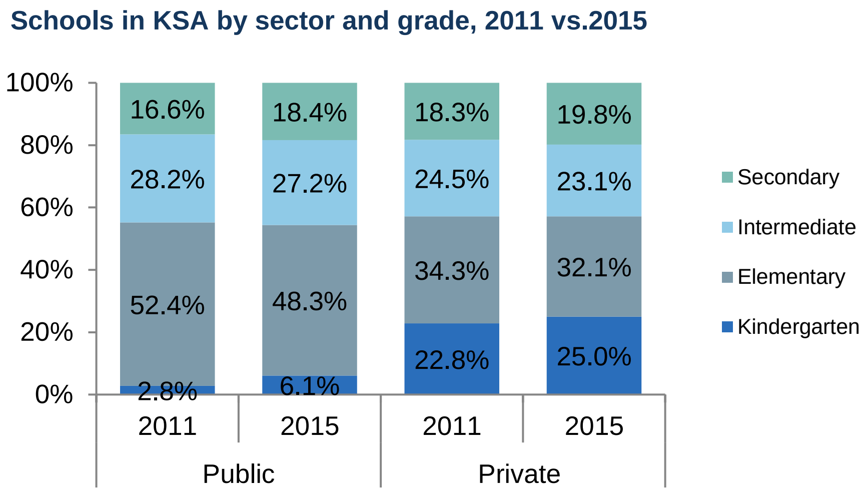
3.14 • Overall, KSA education sector is dominated by the public sector. The share of private schools in KSA was only about 13.2%. As a general rule in the KSA, all schools have to maintain separate premises for male and female students starting from Grade 1.



Source: MoE

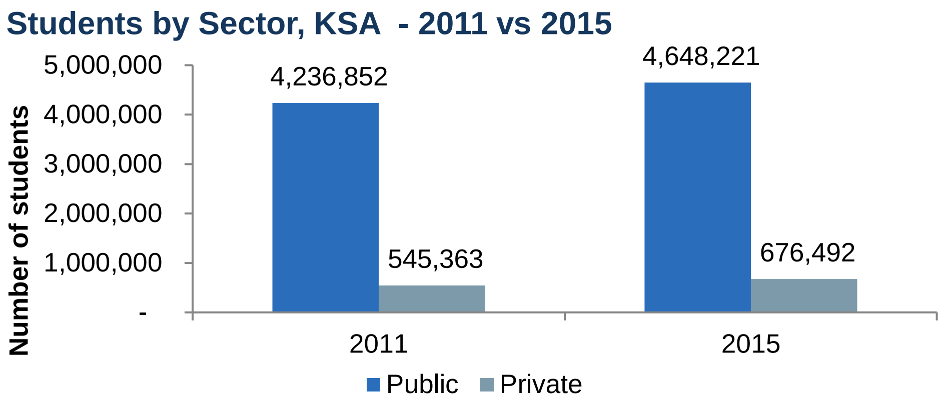
• Between 2011 and 2015, the number of schools increased by 2,693 schools, out of which 2,181 schools were added in public sector and only 512 were added in private sector.

• The chart below shows the distribution of private and public schools in KSA by education grades in 2011 and 2015.



Source: MoE

- In year 2015 private elementary and kindergarten (32.1% and 25% respectively) segment had the highest volume of students. On the other hand, in the public sector, elementary (48.3%) and intermediate (27.2%) had the highest share. This difference between sectors is explained by the fact that kindergarten does not form a part of the official education system in the KSA as children are not obliged to attend the kindergarten grade in order to be enrolled in Grade 1. However, due to government efforts, increasing income levels and awareness amongst parents of early education, the demand for pre-primary education is on the rise.
- Secondary grade offering in private schools was the smallest relative to other grades (19.8% in 2015) which could be attributed to population demographics and expatriate students travelling back to their home countries to complete their education before enrolling into higher education due to considerations of cost, quality and compatibility.
- In 2015 KSA had a total of 5,324,713 students enrolled in the school system and majority of the students (87.3%) were enrolled in the public sector.
- During 2011 – 2015 the number of private schools' students grew almost 2.4 times faster than number of students in public schools (5.5% in private sector vs. 2.3% in public sector) indicating increasing popularity of private education.



Source: MoE

Curriculum

3.15

- A breakdown of private schools by curricula is not available in the MoE statistics. However, our research suggests that 3 main curricula are most popular: American, British and Indian.
- Popularity of British and American curriculum is attributed to global standardized curriculum and examination system that ease transferability between schools and countries – a factor that is appealing to the expatriate community. Additionally, UK and US schools aim to provide students similar educational experiences in terms of quality.
- Indian curriculum schools are popular as well, this is because they serve a large Indian community present in the KSA. In addition, due to their price point and standardized examination method, these schools also appeal to other nationalities from the subcontinent.
- In general, currently the demand for international schools in the whole country is on rise due to perception of a better quality of education and ease of transferability, enhanced by the government's decision to allow Saudi children to enroll in schools offering international curriculums.

4 School Performance Analysis

Rowad Al Khaleej - Dammam

4.1 Rowad Al Khaleej School - Dammam is a primary K-12 school catering to boys and girls. The property was completed in 2012 / 2013. Total capacity of the school is c. 2,800 student seats. We understand there are 2,121 students enrolled in the school for the academic year 2018/2019 according to the data supplied by the client, translating in to occupancy rate of 75.8%. Management believes that 100% occupancy rate will be achieved by the academic year 2021/2022.

School Fees

4.2 The School fees breakdown by grades were not provided to us. The information is not available on the school's website. However, based on the information provided average tuition fee between FY 2017 – 2019 was SAR 33,800.

5 Investment Overview

5.1 There have been a higher frequency of published commercial investment transactions in the Kingdom of Saudi Arabia recently due to the publication of acquisitions on Tadawul of the assets acquired by listed REITS. Other than the REITS, the market is still rather opaque, meaning it is difficult to fully analyse reported transactions.

5.2 In terms of sentiment and market conditions, 2018 was a difficult year for the Kingdom of Saudi Arabia. The supply of high quality stock decreased and potential buyers tended to adopt a 'wait and see' approach due to worsening market conditions, and those that did have assets have chosen to consider the REIT route as a way to divest and obtain liquidity. 2018 saw the introduction and listing of a further number of REITS, albeit performance of these has not been positive to date.

We see the following key points as important factors to consider for any real estate related transaction:

- The white land tax has effectively switched the focus of many family offices and institutions into developing their land bank rather than purchasing income-generating properties. Reducing the buyer pool in the market would also effectively increase the asking yield on properties.
- Recent falls in oil prices have squeezed the finances of the KSA government, which has led to a surge in government borrowing.
- Attractive debt financing (interest only primarily for institutional/fund purchasers) is also hard to come by unless there are existing relationships and arrangements to achieve attractive financing.

5.3 We consider the prices being paid by REITS for real estate assets being sold on a sale and leaseback structures do not necessarily reflect the wider market risk related to the real estate assets themselves, rather the risk profile of the covenant that is taking the lease. We consider a premium is thus being paid for the covenant and security package that is being wrapped around any such transaction. It is therefore important to review in careful detail the security package, robustness of guarantees, post dated cheques, payment terms as well as getting comfort that the underlying cash flows from the asset can support the rent that is being put in place.

5.4 The transactions below show the educational facilities which have been acquired by REITS in the last 2 years.

Asset	REIT	Location	Yield	Date	Notes
Saudi Electronic University	Riyadh REIT	Riyadh	8.70%	2017	3 year lease
Al Faris International School	Al Rajhi	Riyadh	7.53%	2017	Schools, 4 floors including basement

Al Maarefah College	Jadwa	Riyadh	8.00%	2018	3,000 student capacity college facility
Rowd Al Jinan School	Jadwa	Riyadh	9.75%	2018	10 year lease from May 2018, break at 5th year.
Altarbiyah Al Muaharat School	Dereyah	Direyah	8.50%	2018	25 yr lease from September 2018.
Al Khalijiyah Training Center	Dereyah	Khobar	8.66%	2018	July 2018

5.5 Analysis of the above shows that schools when acquired are typically on the basis of a long lease (typically 10-30 years based on the above). The lease being offered for the subject schools are 15 years. Initial yields are typically in the range of 8.0 to 9.0%. We would expect these two assets to trade towards the upper end of this yield rnage based on the lot size, and the fact that the Riyadh asset is under utilised and has not performed well to date.

5.6 The subject asset was to be the subject of a REIT to be launched by Al Khaleej Training and Education in 2017 with ANB Invest. The lease being offered at the time were for a term of 20 years, with the rent to be the same as now proposed. The asking yield on the assets was 7.5%. The asset has been in the market for some 2 years, although there has been no exit to date. In the interim period since the original deal was available, we consider the market has softened, more REITS have been listed and capital raising has become more challenging due to rises in SAIBOR etc. We consider the original asking price for the assets to be aggressive in the current market.

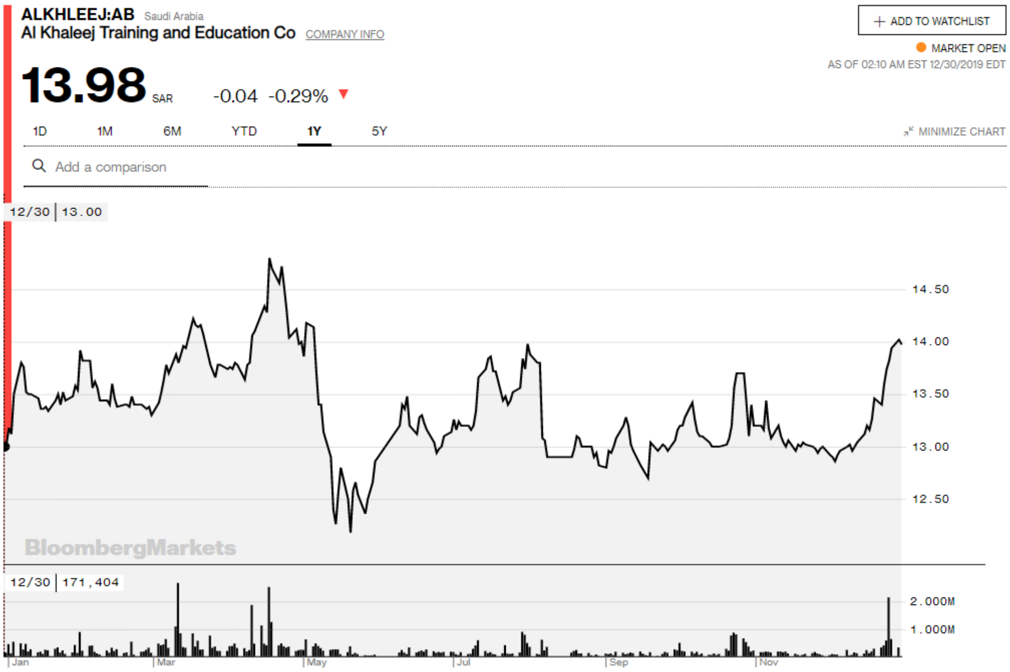
5.7 In formulating our discount rate / exit yield we have had regard to the points in the SWOT analysis above but also to the following:

- The rental level that is to be contracted versus our opinion of affordable rent the schools are able to pay
- The historic performance and student numbers and the reasonableness of the projections going forward
- The security / guarantor package that is offered with each lease contract
- The covenant strength of the tenant (Al Khaleej Training and Education)
- Opportunities for income growth in the lease
- Location – both macro (by city) and micro (by road / frontage)

The exit yield is determined by the rate which recently traded property have sold, which is then adjusted to allow for differences between the comparable evidence and subject property.

AKTE Covenant Review 5.8

Important to understand with sale and leaseback structures, and especially for schools, where ramp up in student numbers often takes some years to optimise, is the security package / guarantees in place to support the rental income contracted. The parent / operator is Al Khaleej Training and Education, which is a company listed since 2007 on the Tadawul with a market cap of SAR 624.6 million as at the 11th March 2019. The Price to Earnings ratio is 20.04. The Q1 2019 earnings announcement was due on 26th March 2019. The chart below shows the relative stock price over the last 12 months sourced from Bloomberg. The 52 week range in share price has been 12 to 15, therefore the shares are currently trending towards the higher end of the 52 week range.



Source: Bloomberg

On a quarterly basis, review of the Income Statement for Q3 2018 showed a Revenue of SAR 212 million, Net Income of SAR 18.2 million and a Profit Margin of 8.60%. Review of the Q3 2018 balance sheet showed Total Assets reported as SAR 1.339 billion, Total Liabilities at SAR 792 million and Debt to Assets ratio of 48.13%.

6 Valuation

Methodology

6.1 Our valuation has been undertaken using appropriate valuation methodology and our professional judgement.

6.2 Given that there are proposed leases in place for each school, we have had regard to these. However, we have also undertaken a detailed cash flow analysis of the underlying school operations to understand if the school can reasonably afford to pay the levels of rent proposed based on the current and future performance. If the rents cannot be properly supported by the EBITDA from the operations of the school, then there will be a shortfall and this brings into question the affordability of the rent. The underlying cash flows thus need careful analysis.

Investment method

6.3 Our valuation has been carried out using the investment method via a DCF approach.

Affordable Rent Methodology

6.4 Based on historical performance analysis, operator projections of revenue and costs and profitability, we have undertaken our own analysis to verify the reasonableness of the projections. Our cash flows have had regard to performance of competing schools in the industry, reviews of capacity and ability to utilise capacity, staffing costs, etc. For each asset we have produced our own P&L which we believe, based on data provided allied to our own market data and projections provides a realistic top line revenue and EBITDA. Derivation of these then allow us to consider what could reasonably be paid away in the form of "rent".

Lease Structure

6.5 We understand the client is talking to the vendor about a 15 year lease structure, which will have no break clauses, be triple net, and have 5 yearly rental escalations at 7.5% every 5 years. Discussions are taking place around a "rent" to be utilised for the potential transaction.

6.6 We understand the rent under discussion is approximately as follows:

Dammam
SAR 19,500,000 pa

6.7 We have then undertaken the following analysis:

- Reviewed what we consider to be an affordable rent in the context of the contracted lease rent proposed for each school
- Analysed the difference between the rent proposed and the rent we consider affordable.
- We consider the rent proposed under the lease structure to be well in excess of what the school operations can afford.
- We have then provided two analyses:

Scenario 1 6.8 We have taken our own opinion of affordable rent for the asset and put this into the 15 year lease structure proposed, and provided a valuation of the asset on this basis.

Scenario 2 6.9 We have taken the proposed rent as per the contract under discussion with the vendor and provided a valuation of the assets on this basis. As we consider the lease rates proposed by the seller to be in excess of what we consider affordable, we have assigned different cap rates / risk premiums to the "core income" (i.e. the base rent we consider to be affordable), and the "over rented part" (i.e. what we consider to be in excess of the market, and would not be achievable if another operator was in place.)

Depreciated replacement cost method 6.10 We have also undertaken a cross check using the Depreciated Replacement Cost (DRC) method. The DRC method is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC method is used for certain types of properties which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their configuration, size, location or otherwise.

Valuation Assumptions

Dammam 6.11 We consider that the rent proposed of SAR 19,500,000 per annum is unaffordable as represents approximately 45% of the forecasted earnings of the school. We consider a rent of SAR 14,500,000 per annum to be affordable, inferring that the proposed rent overburdens the school earnings by SAR 5,000,000 ("over rented portion").

6.12 Having regard to the proposed 15 year lease structure, we have considered the affordable rent part and the over rented part. Different risk premiums have been assigned to each tranche of rental income, as the over rented part represents a greater risk to the owner, and would not be achieved on any future re-letting to another operator.

6.13 We have applied a terminal yield of 7.75% for the school, please note that for the duration the proposed rent is above the affordable rent, the over rented portion is discounted at 10.75%.

Valuation considerations

Dammam 6.14

- The property was completed in 2012 / 2013 and therefore should have reached its stabilised utilisation level. The school is currently at c. 76% utilisation.
- The proposed lease rent is, in our opinion, unaffordable when considering the EBITDA to be produced by school operations, and therefore there is likely to be a shortfall which will need to be topped up by Al Khaleej. This means that the rent proposed to be put in place is "over rented" and above the market, and therefore heavy reliance will be placed on a security package to be put in place by the vendor

in order to guarantee the rents, providing corporate guarantees, post dated rental cheques, etc.

- A school is classified as a unique / specialised asset under IVSC and Taqeem methodology. Due to limited publically available relevant transactional information in this sector, it is challenging to draw a comparative analysis. Therefore, general market dynamics of the industry, operational performance and life cycle has to be analysed to ascertain the rent the school can pay. As can be seen in this case, the rent cover (income divided by rent) once the school has steady enrolments is in excess of 2.5x, therefore demonstrating that the school can adequately support the rent payment.

SWOT Analysis - Dammam

Strengths	Weaknesses
• Good market presence • Good quality facilities • High current occupancy rates (c. 76%) • Currently generating profit	• The school witnessed a significant increase in salary base due to lapse of government subsidies for staff.
Opportunities	**Threats**
• Attract new students and increase existing occupancy rates • Further development in the vicinity may stimulate demand	• Increasing competition in the education sector • Pricing pressure on the school due to competition

Valuation bases

Market Value 6.15 Market Value is defined within RICS Valuation – Professional Standards as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Valuation date

Valuation date 6.16 The valuation date is 31st December 2019.

Market Value

Assumptions

6.17 Our valuation is necessarily based on a number of assumptions which have been drawn to your attention in our General Terms of Business, Terms of Engagement Letter and within this report.

6.18 In providing an independent opinion on the reasonableness and risks of this rent being sustainable, we have not been provided with detailed breakdowns for the operational school. We have been provide with a very high level projections of revenues and expenses. This is not in sufficient detail to allow us to comment on the reasonableness of the business projections, but does allow us to comment on the reasonableness of the rents having regard to the projected profitability of the school.

Key assumptions

6.19 Whilst we have not provided a summary of all these assumptions here, we would in particular draw your attention to the key assumptions which are particularly important / relevant :

- Buyer is to enter into a 15 year lease agreement in respect of the properties
- Rent to increase by 7.5% every 5 years
- No break clauses in the lease
- FRI lease / Triple Net Lease with tenant / operator to be responsible for all operational costs
- Operator / tenant to be responsible for all capital costs under the lease agreement
- Income statement projections were based on the following assumptions (5 year projections):

Time line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Students	2,121	2,235	2,348	2,462	2,575
Revenue (SAR pa)	73,632,054	79,123,735	84,805,630	90,683,151	96,761,851
Total Expenses (SAR pa)	44,006,084	46,265,597	48,597,888	51,004,964	53,488,885
EBITDAR	29,625,969	32,858,137	36,207,741	39,678,186	43,272,966
EBITDAR Margin	40%	42%	43%	44%	45%

Revenue: comprises of tuition fees (student numbers x average tuition fee) and is projected to grow by inflation.

Enrolment: It is estimated that the school will increase its student body from 2,121 students in FY19 to 2,660 students by FY2024 reaching occupancy rate of 95%, staying stable at this level onwards.

Staff salaries were calculated keeping in view the teaching staff to student ratio and salary inflation.

Other expenses were projected using FY2018 or FY2019 costs and forecasted to increase in line with inflation.

We have modelled the income statement up to earnings before interest tax depreciation, amortisation and rent (EBITDAR). This was done to arrive at the theoretical lease payment the school can pay, based on the affordable rent concept (which was explained in section 7 of this report).

Market Value 6.20 We are of the opinion that the Market Value of the freehold interest in the property, subject to the proposed lease agreement, at the valuation date is:

SAR 227,600,000

(Two Hundred and Twenty Seven Million, Six Hundred Thousand Saudi Arabian Riyals).

Sensitivity Analysis 6.21 Additionally, the following sensitivities have been carried out to test the degree of fluctuations in the market value of both schools to changes in key assumptions:

- Sensitivity 1: decrease in yield and discount rates respectively by 0.25%
- Sensitivity 2: increase in yield and discount rates respectively by 0.25%

Based on sensitivity analysis, values are as follows:

Asset	Yield & DCR +0.25%	*Base Case SAR*	Yield & DCR -0.25%
Dammam	220,900,000	***227,600,000***	234,700,000

6.22 Our opinion of Market Value equates to a capital value of :

SAR 8,800 per sq m on BUA

Calculation 6.23 We attach a copy of our valuation calculation at Appendix 6.

Depreciated Replacement Cost

6.24 We have been instructed to consider the property on the basis of the Depreciated Replacement Cost (DRC) approach. We comment that the Depreciated Replacement Cost Method is not the most appropriate approach to value income producing assets such as the Property.

6.25 The approach assesses the cost of providing a modern equivalent asset and adjusting this value to reflect the depreciation of the asset as a result of physical or economic obsolescence. The price of acquiring the next best alternative land is then added to the DRC to provide an opinion of market value.

In determining the value of the land we have adopted the Market Approach.

Dammam 6.26 **Land comparable evidence**

Our land can be seen below together with a number of plots that are for sale in the same neighbourhood.

Source: Google Earth Maps modified by Knight Frank

Ref.	Asking	Size sq m	SAR/ sq m	Frontage	Type
1	2,725,500	1,185	2,300	Un named street -	Residential
2	19,450,000	3,890	5,000	Khaleej Road	Mixed Use
3	8,481,250	1,475	5,750	Khaleej Road	Mixed Use
4	13,090,000	1,870	7,000	Khaleej Road	Mixed Use
5	27,000,000	7,500	3,600	28th Street	Mixed Use

Source: KF Research

Ministry of Justice data on sales provides for the following:

Area	Date	Date Gregorian	Price SAR	Size sqm	SAR/ sq m
AlZuhur	02/04/1439	20/12/2017	4,160,000	1,016	4,094
AlZuhur	06/04/1439	24/12/2017	3,250,000	600	5,417
AlZuhur	29/08/1439	14/05/2018	2,418,160	605	4,000
AlZuhur	29/08/1439	14/05/2018	3,176,000	794	4,000
AlZuhur	29/08/1439	14/05/2018	3,108,920	777	4,000
AlZuhur	29/08/1439	14/05/2018	2,951,400	738	4,000
AlZuhur	29/08/1439	14/05/2018	2,776,317	713	3,895
AlZuhur	17/10/1439	30/06/2018	10,000,000	3,044	3,285
AlZuhur	13/11/1439	25/07/2018	17,086,457	2,668	6,405
AlZuhur	06/01/1440	16/09/2018	670,000	600	1,117
AlZuhur	06/01/1440	16/09/2018	670,000	600	1,117
AlZuhur	05/03/1440	13/11/2018	3,150,000	750	4,200
AlZuhur	28/05/1440	03/02/2019	3,289,500	1,290	2,550
AlZuhur	28/05/1440	03/02/2019	3,289,500	1,290	2,550
AlZuhur	28/05/1440	03/02/2019	4,078,350	1,362	2,995

We conclude the land value based on recent and current transactions, size and asking prices to be SAR 2,000 – 3,000 per sq m. Land values have fallen considerably across the Kingdom in the last 2-3 yrs following the white land tax, VAT, Saudisation etc. We have adopted SAR 2,500 per sq m in our analysis.

Estimated Replacement Cost

We have analysed market construction benchmarks in KSA to derive at our estimated replacement cost for the Property if it were to be constructed at the valuation date. The applied rate has regard to the construction of a school and staff accommodation with fixed fit out. The applied rate equals to SAR 3,320 per sqm of the built up area which includes the school as well as the staff accommodation.

Depreciation

We understand that the school building was completed in year 2012 while the staff accommodation and girls school expansion was completed in 2013 and 2012 respectively. The useful life of the building is estimated in the region of approximately 35 years.

Therefore, at the date of valuation the Property we have assumed the below mentioned depreciation factors:

Ref.	Depreciation factor
Boys & girls school	20%
Staff Accommodation building	17.1%
Girls school expansion	14.3%

The depreciated replacement cost of the building excluding the land

is therefore **SAR 70,900,000**

Summary of DRC Approach

The table below summarises our assessment of the Depreciated Replacement Cost Approach for the Property:

Description	Depreciated Replacement Cost (SAR)
DRC of the building	70,900,000
Land	50,000,000
Total, say	**121,400,000**

We are of the opinion that the Depreciated Replacement Cost of the Dammam School subject to the assumptions and caveats detailed herein, as at the valuation date is:

SAR 121,400,000

(One Hundred and Twenty One Million, Four Hundred Thousand Saudi Arabian Riyals)

6.27 We would comment that this approach has no regard whatsoever to the cash flows generated from the building, the covenant strength of the occupier, the security of income and does not reflect the current market conditions or investor sentiment. We therefore advise that less reliance is placed on this valuation approach.

7 Signature

Reviewed (but not undertaken by):

Stephen Flanagan, MRICS

RICS Registered Valuer

Taqeem No. 1220001318

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Saud Sulaymani

Taqeem No. 1210001100

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Appendix 1 - Instruction documentation

TERMS OF ENGAGEMENT

Client:	Al Rahji Capital
Contact person:	Avinash Ragoowansi
Contact email:	RagoowansiA@alrajhi-capital.com

1	*Our Client and any other intended users*	Al Rahji Capital
2	*Purpose of valuation*	Acquisition
3	*Asset or Liability to be valued*	2 x School assets in Riyadh and Dammam
4	*Interest to be valued*	Freehold
5	*Type of Asset or Liability & use*	Schools
6	*Delivery of draft report*	10 working days
7	*Basis of valuation*	Market Value in accordance with the RICS Valuation - Professional Standards 2017 – including the International Valuation Standards
8	*Valuation Date*	As at the date of inspection or otherwise stated
9	*Conflicts of interest*	We have no current fee earning involvement with the properties
10	*Status of Valuer*	External Valuers
11	*Valuer and Competence Disclosure*	The Valuers with responsibility for this report will include Stephen Flanagan, MRICS, Saud Sulaymani and Alexandros Arvalis, MRICS. We confirm that the Valuers meet the requirements of the RICS Valuation Standards PS 2 having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently
12	*Currency to be adopted*	SAR
13	*Key assumptions, special assumptions, reservations, special instructions or departures*	To be advised
14	*Extent of inspection and investigations*	Our General Terms of Business for Middle East Professional Assignments and Valuations sets out the scope of our on site investigation
15	*Information to be relied upon*	We will rely upon information provided to us by you (or a third party) and will assume it to be correct without further verification. We recommend reliance is not placed on our interpretation of title and lease documents and that independent legal advice is sought
16	*Fees*	Our fee for undertaking this assignment will be SAR 65,000 + VAT
17	*Payment Terms*	Initial 50% of the total fee is payable upon signing of the Terms of Engagement. Final 50% of the total fee is payable upon submission of the draft report. The final report will not be released until payment is made in full
18	*Client review of draft report*	We will provide you with the opportunity to give any comments on the draft report, before finalising the report. You will have 5 working days to provide comments once the report has been released in Draft format. We reserve the right to charge late fees on any work undertaken after this period has expired at a rate of SAR 500 per day until all comments have been addressed
19	*Limitation of liability to Client*	We refer you to Clause 3 of our General Terms of Business for Middle East Professional Assignments and Valuations which limits our liability to you. Pursuant to Clause 3.1 we confirm that Knight Frank Valuation Services L.L.C. maximum aggregate liability to you under or in connection with this instruction whether in contract, tort (including negligence) or otherwise will in no circumstances exceed SAR 1,000,000.
20	*Liability to parties other than the Client*	The valuation is confidential to the Client and no responsibility is accepted to any other third party for the whole or any part of its contents.
21	*Publication*	Should you wish to make reference to the valuation in annual accounts or any other document, circular or statement or disclose it to a third party, we require to approve the form and context of such publication or disclosure.

الراجحي ريت
ALRAJHI REIT

Our Terms of Engagement for this instruction comprise our "General Terms of Business for Middle East Professional Assignments and Valuations" which are attached, together with the specific terms contained within this sheet. Please can you sign and return this document signifying your agreement to the terms contained therein

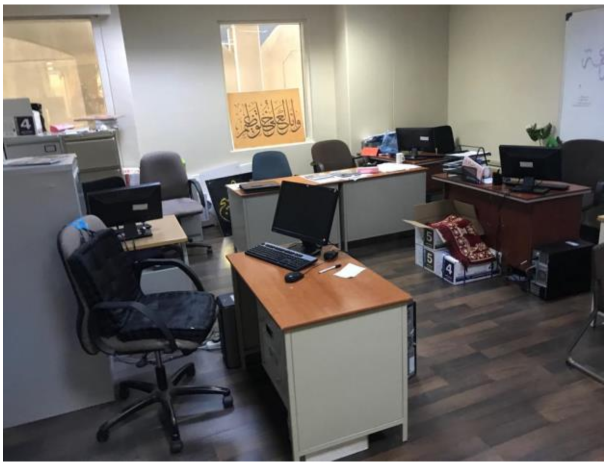
Signed for and on behalf of Al Rahji Capital

Date:
Name:

Signed for and on behalf of Knight Frank Valuation Services L.L.C.

Date: 25 February 2019
Name: Stephen Flanagan

Appendix 2 - Dammam School Photographs



Appendix 3 - Title Deed - Dammam

Page 2 o

الرقم : ٩٣٠١١١٠٠٤٩٠٥

التاريخ : ١٤ / ٤ / ١٤٣٣ هـ

كتابة العدل الأولى بالدمام

صك تملك عقار

الحمد لله وحده والصلاة والسلام على من لا نبي بعده، وبعد:

فلدي أنا ثامر بن علي عبدالله الشهري كاتب العدل بكتابة العدل الأولى بالدمام،

فإن قطعة الارض ٢٥ و قطعة الارض ٢٦ و قطعة الارض ٢٧ من المخطط رقم ٤١ / ١ الواقع في حي الزهور بمدينة الدمام .

وحدودها وأطوالها كالتالي:

شمالاً: شارع عرض ٢٠ متر بطول: (١٥٠) مائة و خمسون متر

جنوباً: قطعة رقم ٢٨ والقطعة رقم ٢٩ بطول: () يبدا من الشرق بطول ٧٥ متر ثم ينكسر الى الشمال بطول ٤٥ متر ثم يعتدل للغرب بطول ٧٥ متر

شرقاً: شارع عرض ٣٠ متر بطول: (٩٠) تسعون متر

غرباً: شارع عرض ٢٠ متر بطول: (٤٥) خمسة و اربعون متر

ومساحتها : (١٠٠٩٩) عشرة الآف و تسعة و تسعون متر مربعاً فقط بناء على خطاب الامانة رقم ٢٣٩٣ / ٢٤٢٣ / س/ اض في ٢٤ / ٤ /١٤٢٦ هـ والمقيد برقم ٢٠٩٨ فى ٢٤ / ٤ /١٤٢٦هـ

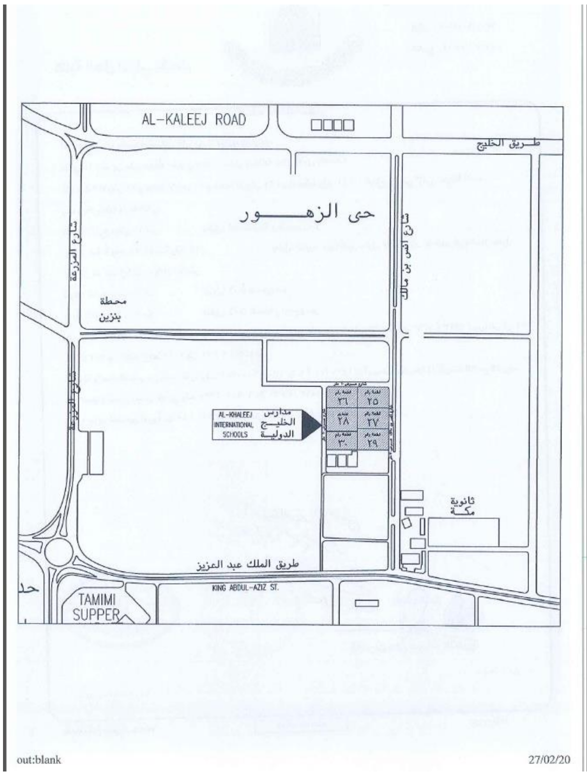
المرهونة بالصك الصادر من هذه الإدارة برقم ٤٣٠١٠٦٠١١٩٥٩ في ٩ / ١١/ ١٤٣٠ هـ أصبحت مملوكة لـ/ شركة الخليج للتدريب في السعودية بموجب سجل تجاري رقم ١٠١٠١٠٣٣٦٧ في ٣٠ / ٥/ ١٤١٣ هـ خالية من الرهن .

وعليه جرى التصديق تحريراً في ١٤ / ٤/ ١٤٣٣ هـ وصلى الله على نبينا محمد وآله وصحبه وسلم.

كاتب العدل

ثامر بن علي عبدالله الشهري

صفحة ١ من ١



Appendix 4 - Taqeem Licenses

Stephen Flanagan, MRICS
Partner - Head of Valuation & Advisory, MENA

Saud Sulaymani
Partner, KSA

وزارة التجارة والاستثمار
Ministry of Commerce and Investment

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

شهادة تسجيل شركة مهنية مختلطة

الرقم ٨٧٤/١٨/٣٢٢ التاريخ ١٤٤٠/٧/٣هـ

بناء على احكام نظام الشركات الصادر بالمرسوم الملكي رقم (م/٦) وتاريخ ١٣٨٥/٣/٢٢هـ ونظام الشركات المهنية الصادر بالمرسوم الملكي الكريم رقم (م/٤) وتاريخ ١٤١٢/٢/١٨هـ ولائحته التنفيذية الصادرة بقرار معالي وزير التجارة والصناعة رقم (٤١) وتاريخ ١٤١٣/١/٨هـ.

فقد تم تكوين شركة مهنية بين كل من السادة:

	اسم الشريك	الجنسية	رقم الترخيص	تاريخه	المهنة
-١	سعود محمد سليماني	سعودي	١٢١٠٠٠١١٠٠	١٤٣٩/٩/٢٣هـ	مقيم عقاري
-٢	شركة نايت فرانك اسبانيا اس أي يو	اسبانيا	٣٠٣٨٠	١٤٤٠/٧/٣هـ	التقييم العقاري

وذلك لمزاولة مهنة (التقييم العقاري) بالمملكة العربية السعودية.
باسم (شركة نايت فرانك سبين العربية السعودية للتقييم العقاري).
وتم تسجيل هذه الشركة بسجل الشركات المهنية بالإدارة العامة للشركات رقم ٨٧٤/١٨/٣٢٢ التاريخ ١٤٤٠/٧/٣هـ.
سددت رسوم التسجيل بالإيصال رقم (٠٠١٤٠٥٦٦٧٣) وتاريخ ١٤٤٠/٧/٣هـ . لمدة تنتهي في ١٤٤٥/٧/٣هـ

الختم الرسمي

وزارة التجارة والاستثمار
Ministry of Commerce and Investment
إدارة خدمات الشركات

مدير مركز خدمة العملاء بشمال الرياض

٣/٧/١٤٤٠هـ
ريان بن محمد الشفاوي
عنه / سعد محمد القحطاني

Valuation report

Rowad Al Khaleej International School (Riyadh), Kingdom of Saudi Arabia

Prepared on behalf of **Al Rajhi Capital**

Date of issue: **31st December 2019**

Contact details

Al Rajhi Capital, Musa Ibn Nusair St., Olaya, 12214, Riyadh
Avinash Ragoowansi, Tel no +966 56 424 2083RagoowansiA@alrajhi-capital.com

Knight Frank Spain Saudi Arabia Real Estate Valuation Company Building WH14, 1st Floor, Al Raidah Digital City, Riyadh, Kingdom of Saudi Arabia

Stephen Flanagan, +971 4 4512 000, stephen.flanagan@me.knightfrank.com
KF ref: KFV109-2019

Knight Frank Spain Saudi Arabia Real Estate Valuations Company is a company registered in KSA with commercial license number 1010564516.

Executive summary

The executive summary below is to be used in conjunction with the valuation report to which it forms part and is subject to the assumptions, caveats and bases of valuation stated herein and should not be read in isolation.

Address	Rowad Al Khaleej International School, Al Mograzhat, Riyadh
Location	The property is located in the Al Moghrazat district, in the northern part of Riyadh. The Al Moghrazat district comprises predominantly low rise residential buildings and large plots of undeveloped land. Al Nakheel Mall is situated some 600 metres to the north of the property and the Riyadh International Exhibition Centre is approximately 1 km to the south.
Description	The property comprises of a school situated in a predominantly residential suburb of North Riyadh, in the district of Al Moghrazat. We understand that the property was built in 2015 and has a total BUA of 38,627 sq m, built over basement level 1, basement level 2, ground, first, second and roof floor.
Areas	BUA 38,627 sq m
Tenure	The asset is held with freehold title, under a series of title deeds articulated in the report
Tenancies	The client intends to acquire the asset subject to a proposed lease, which will be for 15 years in length, be full repairing and insuring (triple net) with the tenant being responsible for all opex, capex and repairs and maintenance. The rent will escalate at 7.5% every 5 years and there will be no provisions for termination. The lease will be guaranteed with a parent company corporate guarantee from the listed parent company, Al Khaleej Training and Education.
Planning	We have assumed that the asset has full planning consent as built.
Valuation Methodology	We have determined an “affordable” rent, which each school can reasonably afford to pay from its EBITDA based on our assessment of future performance. We have compared this to the proposed rent, which will be put in place by the vendor under the proposed sale and leaseback structure. The proposed rent is, in our opinion, considerably in excess of an affordable rent. Therefore, we have, in our discounted cash flow analysis, applied a greater risk premium to the “over rented” element of the lease rent, based on the theory that this rent could not be achieved should the operator not be in place and the school be let to another operator. We have then undertaken our valuation based on the 15-year lease structure being put in place.

Valuation considerations

- The rents proposed for the assets is well in excess of what we deem to be an affordable rent that the school operations can reasonably support. There is a danger that any default would leave the landlord in a difficult position and with schools that would be very difficult to re-let. The entire deal is underpinned by the tenant company guarantees and covenant strength.
- The nature of the school is such that if there was any lease default and the property became vacant, there would only be two options – a) re-let to another operator (assuming there was an operator willing to take the building or b) redevelop the site for another use.
- The Depreciated Replacement Cost of the asset is considerably lower than the Market Value reported as build costs for schools of this type are low in KSA and land values have fallen a lot in KSA over the last 3-4 years. What this means is that it is viable for another operator to acquire land and build a school in this area, if there was a market for another curriculum etc, which could be done affordably. The land cost etc would not be a barrier to a new market participant.
- The Riyadh School has been open 4 years but is only at circa 30% utilisation currently. Fees have had to be discounted heavily to attract students.

Valuation date

31st December 2019

Market Value

We are of the opinion that the Market Value of the property on the basis of the proposed 15 year lease with AKTE may be expressed as:

SAR 217,600,000

(Two Hundred and Seventeen Million, Six Hundred Thousand Saudi Arabian Riyals).

MV analysis

Metric	Riyadh
Net Initial Yield	8.94%
Market Value SAR per sq m BUA	5,600
Contracted Rent (SAR p.a.)	19,100,000

Contents

Appendices

1 Instructions

Engagement of Knight Frank Spain Saudi Arabia Real Estate Valuation Company

Instructions	1.1	We refer to our Terms of Engagement and General Terms of Business dated 26th February 2019, which were signed and returned to us on 31 March 2019, to provide a valuation report on. Rowad Al Khaleej International School (Riyadh), ("the property"). Copies of these documents are attached at Appendix 1.
	1.2	This valuation has been carried out in accordance with our General Terms of Business for Valuations ("General Terms of Business").
Client	1.3	Our client for this instruction is Al Rajhi Capital ("the Client").
Valuation standards	1.4	This valuation has been undertaken in accordance with RICS Valuation – Global Standards 2017, incorporating the International Valuations Standards, and RICS Professional Standards July 2017. References to "the Red Book" refer to either or both of these documents, as applicable.
Purpose of valuation	1.5	You have confirmed that this valuation report is required for the purposes of acquisition by Al Rajhi REIT as an income generating asset.
Conflict of interest	1.6	We confirm that we do not have any material connection or involvement giving rise to a conflict of interest and are providing an objective and unbiased valuation.
	1.7	We are acting as External Valuers, as defined in the Red Book.
Responsibility to third parties	1.8	Our valuation report is only for the use of our Client and no liability is accepted to any third party for the whole or any part of its contents.
Disclosure & publication	1.9	Neither the whole nor any part of this valuation nor any reference thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form or context in which it may appear.
Limitations on liability	1.10	No claim arising out of or in connection with this valuation report may be brought against any member, employee, partner or consultant of Knight Frank Spain Saudi Arabia Real Estate Valuation Company ("Knight Frank"). Those individuals will not have a personal duty of care to any party and any claim for losses must be brought against Knight Frank.
	1.11	Knight Frank's total liability for any direct loss or damage caused by negligence or breach of contract in relation to this instruction and valuation report is limited to the amount specified in the Terms of Engagement letter, a copy of which is attached. We do not accept liability for any indirect or consequential loss (such as loss of profits).
	1.12	The above provisions shall not exclude or limit our liability in respect of fraud or for death or personal injury caused by our negligence or for any other liability to the extent that such liability may not be excluded or limited as a matter of law.
Expertise	1.13	In accordance with VPS3 of the Red Book, the valuer, on behalf of Knight Frank, with the responsibility for this report is Stephen Flanagan MRICS, RICS Registered Valuer.

We confirm that the valuer meets the requirements of the Red Book, having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently.

Vetting 1.14 This report has been vetted as part of Knight Frank's quality assurance procedures.

Scope of enquiries & investigations

Inspection

1.15 We were instructed to carry out an internal inspection of the properties. Our inspection of the property was undertaken on 5th March 2019 (Riyadh) by Saud Sulaymani, Stephen Flanagan and Shehzad Jamal.

Investigations

1.16 The extent of enquiries/investigations made is set out in our General Terms of Business. In carrying out this instruction, we have undertaken verbal / web based enquiries referred to in the relevant sections of this report. We have relied upon this information as being accurate and complete.

1.17 As previously agreed with you, the enquiries undertaken by us in this instruction have been limited in the following respect:

Information provided

1.18 In this report we have been provided with information by Al Khaleej Training and Education, its advisors and other third parties. We have relied upon this information as being materially correct in all aspects.

1.19 In particular, we detail the following:

- Information relating to the extent of the property site area, produced by Al Khaleej Training and Education
- Information relating to the property built up area, produced by Al Khaleej Training and Education
- Information relating to the performance of the property in 2017 and 2018 only, from Al Khaleej Training and Education.
- We did request detailed financial breakdowns for the asset, this could not be provided in full. We have therefore had to make a number of assumptions, which place a greater degree of uncertainty and subjectivity on our projections and valuation.

A schedule of documentation provided is attached in the Appendix..

1.20 In the absence of any documents or information provided, we have had to rely solely upon our own enquiries as outlined in this report. Any assumptions resulting from the lack of information are also set out in the relevant section of this report.

Valuation bases

1.21 In accordance with your instructions, we have provided opinions of value on the following bases:-

Market Value (MV)

1.22 The Market Value of the freehold interest in the property in its current physical condition, subject to a proposed 15 year lease (terms to be defined within).

Market Rent (MR)

1.23 The Market Rent of the property. We have undertaken our own analysis of the school performance based on the data provided to date. In the absence of detailed information, assumptions on school performance were made in order to determine what the school can generate by way of EBITDA and thus what, as an operational business, they can realistically afford to pay as an “affordable rent” for the premises.

Valuation date 1.24 The valuation date is 31st December 2019.

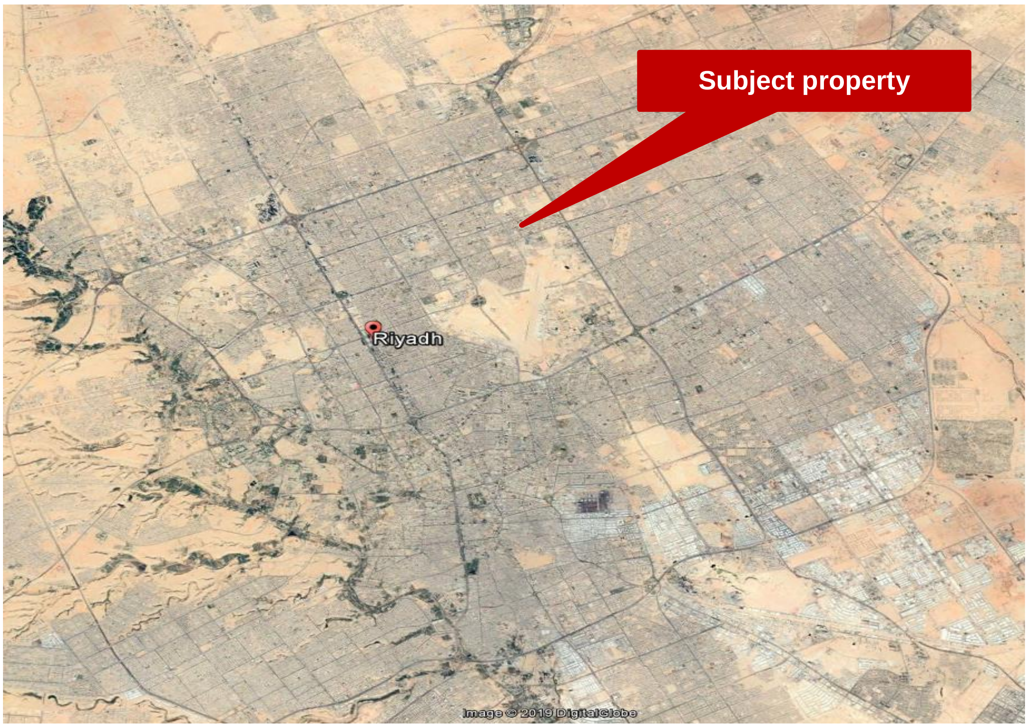
2 Rowad Al Khaleej International School, Riyadh

Location

Rowad Al Khaleej International School, Riyadh

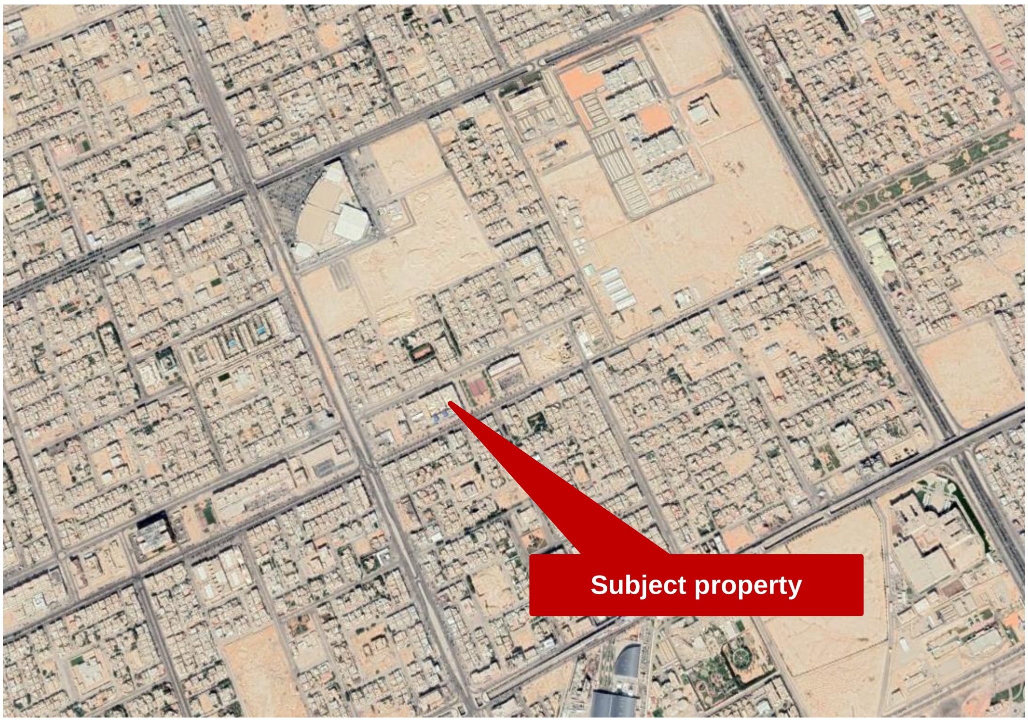
2.1 As shown in the Google Earth image below, the property is located in Riyadh, KSA. More specifically the property is located in the Al Moghrazat district, in the northern part of Riyadh.

The Al Moghrazat district comprises predominantly low rise residential buildings and large plots of undeveloped land. Al Nakheel Mall is situated some 600 metres to the north of the property and the Riyadh International Exhibition Centre is approximately 1 km to the south.



Source: Google Earth

2.2 The street plan below shows the location of the property.



Source: Google Earth

Site

Site area 2.3 The site which the property is developed over comprises two land plots which measure 7,920 sq m and 8,039.9 sq m, amalgamating into one flat rectangular site measuring 15,959.9 sq m.

Site plan 2.4 The property is identified on the site plan below, showing our understanding of the property coloured in red.

Source: Client

Description

2.5 The property comprises of a school situated in a predominantly residential suburb of North Riyadh, in the district of Al Moghrazat. We understand that the property was built in 2015 and has a total BUA of 38,627 sqm, built over basement level 1, basement level 2, ground, first, second and roof floor.

2.6 The property appeared to be constructed around a reinforced concrete frame which is surrounded by a concrete wall.

2.7 There are 9 gates at the property, where the main pedestrian access is through gate 3 that leads to the main administration area. The kindergarten is accessible through gate 1.

2.8 Internally, the property is divided into 3 distinct sections:

- A Boys school in the east and north eastern wing;
- A Girls school and kindergarten in the west and north western wing;
- A staff accommodation building within the central part of the north wing.

The central part of the property includes a playground that is covered by a tent like structure. The tent like structure appears to be pvc material which is hard wearing and capable of cleaning.

The internal finishes in the building are good quality, floors are finished with tile on the ground and upper floors and laminated wood flooring at basement level 2.

2.9 Basement level 2 comprises of a large hall with stage that is double in height, and includes underground tanks, mechanical rooms and elevators.

2.10 At basement level 1, a kindergarten, multi-purpose rooms, labs and classrooms are built. There are guardrooms located in the east side and 156 parking spaces at the west side.

2.11 The ground floor accommodates the principal's office in the west wing, a bookstore, and dining areas. There is a chemical and biological laboratory in the north western wing, accommodating a capacity of up to 32 students per laboratory. Circulation around the building is serviced by 8 elevators and ten staircases, which are distributed across the various sides of the school. Additionally, there are two staircases and a lift within the staff accommodation building.

2.12 The first floor is accessible from the floor below and above from the eastern, northern and southern wings by both elevators and stairs. The floor is laid out with a series of classrooms, laboratories, staff offices and a library.

2.13 The second floor is accessible through the same staircase and elevator points as the first floor. It comprises of classrooms, a library, multimedia room, customer service room, an operations manager's office and toilets.

2.14 Within the staff accommodation building there are a total of 34 furnished studio apartments, which include 10 on the ground, 12 on first, and 12 on the second floor. There is a gym, lounge area and swimming pool at basement level 1.

Street access to the staff accommodation building is provided through Abi Sufyan Road. It is also accessible from the eastern and western wings of the school through fire exits which lead to the front and rear of the staff accommodation building.

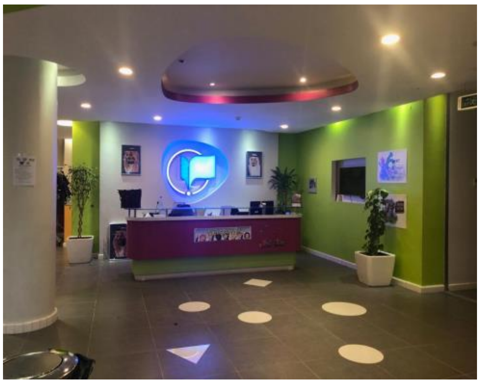
2.15 The school has collaborated with AC Milan Football Academy to offer football coaching to both students of the school and students from the area. These coaching sessions are run weekly and are held on the Astroturf pitches at the school.

South elevation

Main reception – boys school

South elevation

Typical corridor area



Reception to girls school

Typical classroom

North elevation

North elevation

Accommodation

Measurement 2.16 As agreed with the client, we have relied upon floor areas provided to us by Al Khaleej Training and Education. No further verification has been undertaken, however we did note during our inspection that the actual layouts of the schools were not exactly as per the floor plans provided – these differed in terms of internal configuration and use i.e. classrooms versus library / offices etc, therefore it was difficult to determine the actual number of classrooms. The floor areas provided are broadly as follows:

Floor areas

Table 1: Floor Areas

Unit	Description	Sq m	Sq ft
Basement	Electricity room	33.6	.362
Basement	Car park	15,143	162,999
Ground	Educational	7,537	81,128
First	Educational	7,957	85,649
Second	Educational	7,957	85,649
Total		38,627.6	415,787

Source: Client

2.17 The valuation given does not include any chattels or contents within the property.

Services

2.18 In accordance with the General Terms of Business enclosed at Appendix 1, no tests have been undertaken on any of the services

2.19 We have assumed for the purposes of this valuation that mains gas, water, electricity, drainage and telecommunications are all available to the property.

Legal title

Tenure

2.20 We have been informed that title to the property is freehold.

Legal Documentation

2.21 The pertinent legal details are as follows:

Title Deed No.	Area sq m	Owner
810117030372	7,920	Al Khaleej Training and Education Company
310114027150	8,309.9	Al Khaleej Training and Education Company

Source: Client

2.22 It is assumed that there are no onerous restrictions or outgoings contained within the title that would impact on the valuation provided within this report.

2.23 These assumptions should be verified by your legal advisors. If they prove incorrect, any variation may have a material impact on value and should be referred back to us for further comment.

Covenants 2.24 We have assumed that the property is not subject to any unusual or onerous covenants, restrictions, encumbrances or outgoings.

Tenancies

Proposed heads of terms 2.25 We have been informed by the Client that the lease will be on a triple net basis whereby all the repairs, maintenance and insurance expenses are borne by the tenant.

We understand that the lease will commence in 2019. However, we have not been informed of the exact start date and end dates. We understand that the lease is to be for 15 years and is subject to a contracted rental increase of 7.5% every 5 years.

We set out below the salient points:

Item	Description
Demise	Rowad Al Khaleej International School, Riyadh
Lessor	TBC
Lessee	Al Khaleej Training and Education
Lease commencement date	2019
Lease expiry date	2034
Term	15 Years
Lease rent	SAR 19,100,000 per annum
Escalation	7.5% every 5 years

Source: Client

2.26 We also understand that the Property does not contain any unusual or unduly onerous encumbrances or constraints, which would detrimentally impact its value or marketability.

Condition

Scope of inspection 2.27 The property was inspected on 5th March 2019 by Saud Sulaymani, Partner, Stephen Flanagan, Partner and Shehzad Jamal, Partner. Our inspection was on a visual basis only, both internally and externally. We have assumed here are no material changes to the asset since the inspection date.

2.28 During our inspection, no major defects or serious items of disrepair were noted which would be likely to give rise to a substantial capital expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

2.29 At the date of inspection, the building appeared to be in a generally reasonable state of repair commensurate with its age and use. No urgent or significant defects or items of disrepair were noted which would be likely to give rise to substantial expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

Ground conditions 2.30 We have not been provided with a copy of a ground condition report for the site. We have assumed that there are no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

Environmental considerations

Contamination 2.31 As stated in the General Terms of Business, investigations into environmental matters would usually be commissioned from suitably qualified environmental specialists. Knight Frank is not qualified to undertake scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor do we undertake searches of public archives to seek evidence of past activities which might identify potential for contamination.

Sustainability

2.32 Some of the key issues relating to a building's sustainability are:

- land use
- design and configuration
- construction materials and services
- location and accessibility considerations
- fiscal and legislative considerations
- management and leasing issues

2.33 From a value perspective, sustainability is likely to be a long-term issue and its relative importance will change over time.

Planning

2.34 We understand that the property as built has full planning consent. We have been provided with a copy of the construction license detailing consent for a school, and a total BUA of 38,627.6 sq m.

Highways and access

Highways 2.35 We have assumed that there are no current highway proposals in the immediate vicinity likely to have a detrimental effect upon the property within the foreseeable future.

Access 2.36 In reporting our opinion of value, we have assumed that there are no third party interests between the boundary of the property and the adopted highways and that accordingly the property has unfettered vehicular and pedestrian access.

2.37 We have assumed that there are no issues relating to visibility splays which may impact upon the use or proposed use of the property.

3 Market analysis

KSA Economic overview

Key Findings

3.1 Economic Factors

- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the last five years, collectively contributing to 23 percent of the GDP in 2017.
- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This trend is largely due to the sharp decline in oil prices in recent years. The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has been declining as a share of GDP over the past 5 years.
- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However, oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price. In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. This figure has rebounded to 1 percent in 2017.
- Looking forward, the GDP growth rate in KSA is not going to reach the levels that it once was in the recent past. The IMF reports that GDP growth will recover to 1.1 percent in 2018, and projects that it will further improve to 1.6 percent in 2019 before rebounding to around 2.0 percent in 2020.
- These projections imply that the historic growth in the real estate sector will also be more muted than in the past, making real estate investment a riskier endeavour. This is despite government plans of the development of the "economic cities", initiated with around USD 70 billion of seed investment with the aim to reduce oil dependency, as there are concerns that these plans may be affected by the delays and scaling back of many real estate and infrastructure projects.
- Efforts by the government to diversify the economy and increase the non-oil sector share is expected to lead to an increased focus on tourism and hospitality. The aforementioned sectors are expected to get a further boost from the government's effort to be transparent, encouraging direct foreign investment.

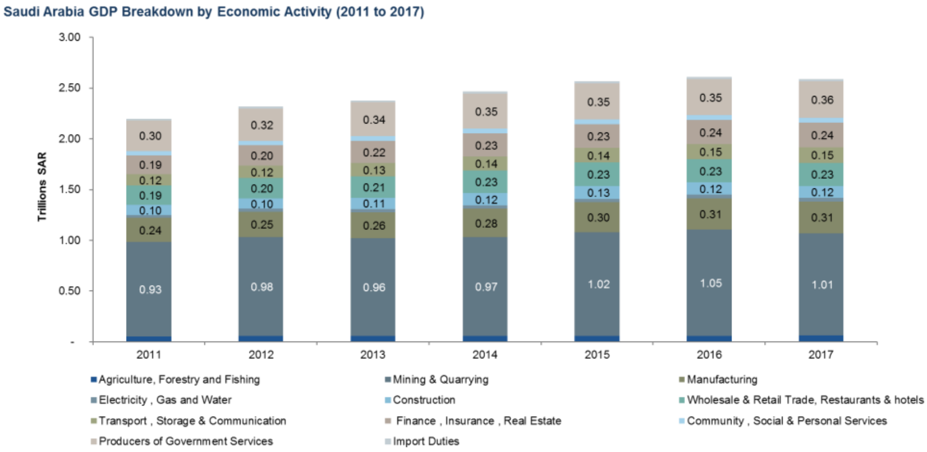
3.2 Demographic Factors

- The population of Saudi Arabia stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020. In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population.
- As shown by the forecasts, a large and growing population will continue to drive demand for goods and services in the longer term. The population segmentation

shows that over half the population is concentrated in two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals. The average unemployment rate for the kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in-line with the average long-term unemployment rate which stands at 5.7 percent for last 15 years. However, the total unemployment rate of Saudi Nationals stood at 12.3 in 2016, the discrepancy arising due to the fact that expatriates require employment in order to have residency in the country. This has spurred “Saudization” policies in 2016 that will reduce Saudi unemployment, but also significantly reduce the growth of the expatriate population.
- These demographic factors have overall positive implications for real estate investment – population numbers will continue to grow and increase demand in the residential, retail, and tourism sectors. The reduction of Saudi unemployment will increase overall household incomes as Saudis are costlier labour than non-Saudis and do not repatriate their incomes and are thus more likely to invest in the country. This could potentially counteract the expected decrease in the population growth.

3.3 Saudi Arabia GDP Breakdown by Economic Activity (2011 to 2017)

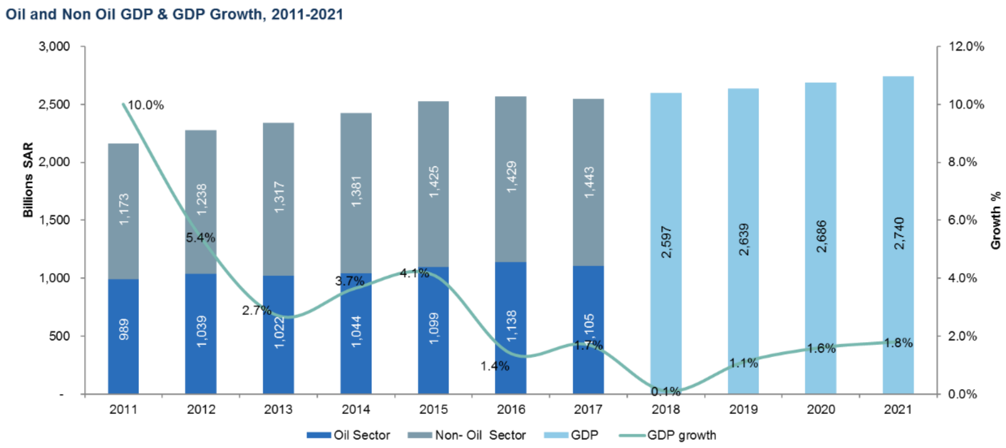


Source: General Authority for Statistics

- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This decline was largely attributable to the sharp decline in oil prices in recent years.
- The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has steadily been declining as a proportion of overall GDP over the past 5 years.
- This has been attributable not only to the declining oil prices in recent years, but also to a conscious effort to diversify the economy away from oil dependence. The kingdom has plans to strengthen the performance of its non-oil sectors – such as the tourism sector - over the next decade.

- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the five year period, collectively contributing to 23 percent of the GDP in 2017.

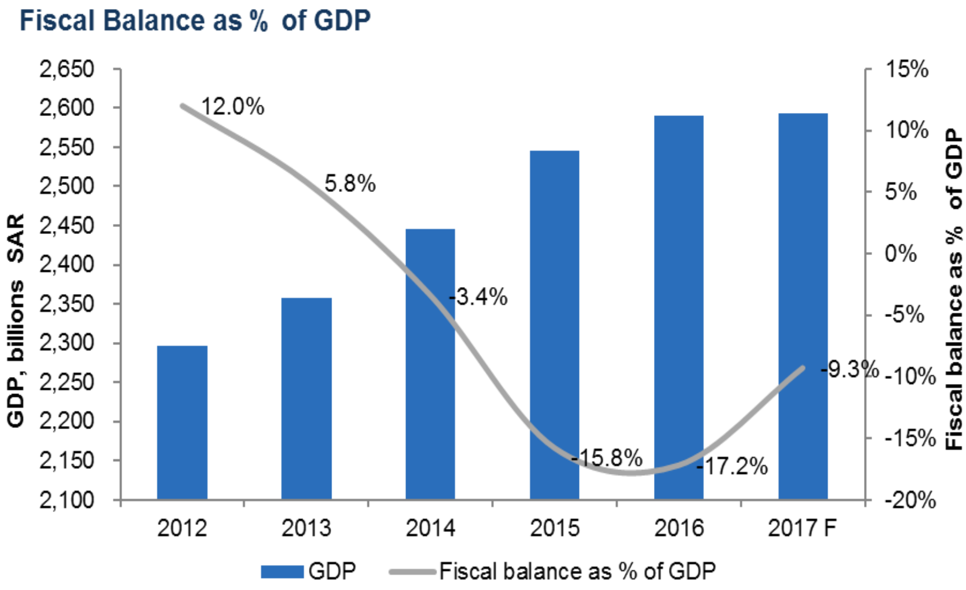
3.4 Oil and Non-Oil GDP & GDP Growth, 2011-2021



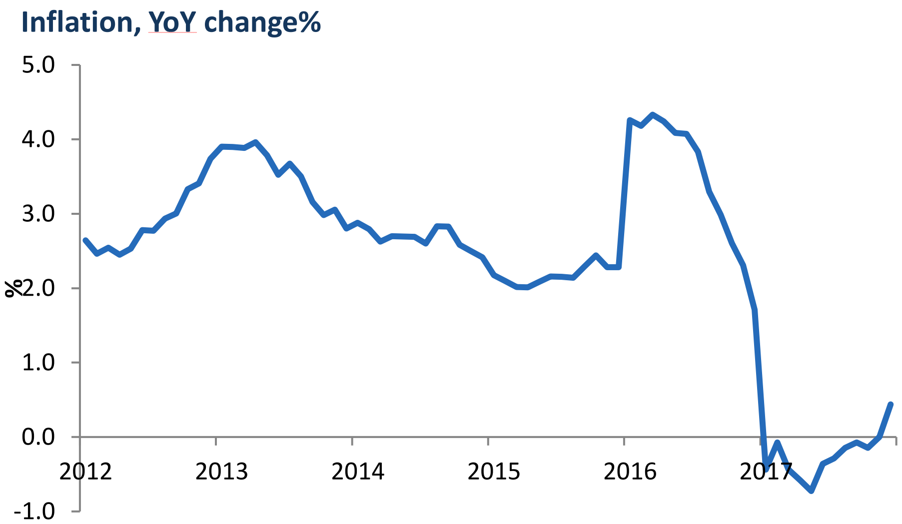
Source: GAS, IMF

- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price.
- Low oil prices have opened up large twin budget and current account deficits. The country's large savings means the adjustment is likely to be gradual and experts suggest that fears of the dollar peg being abandoned have been overdone.

3.5 Fiscal Balance as % of GDP



Source: IMF

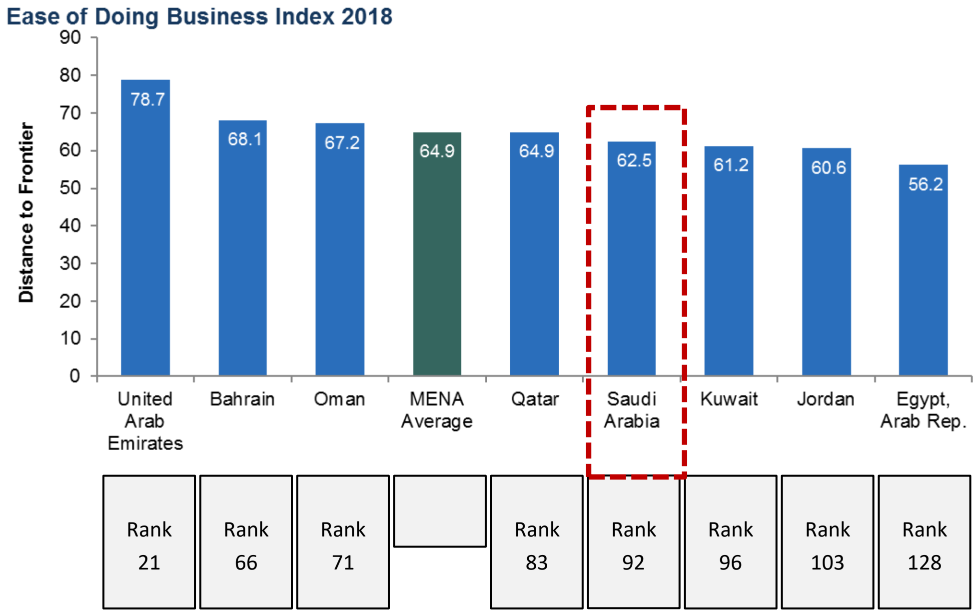


Source: Macrobond

- Given the extent to which Saudi Arabia's economy is reliant on the hydrocarbon sector, the sharp fall in oil revenues, has squeezed the kingdom's budget surplus which has slipped into a deficit mode.
- The government has taken several fiscal consolidation measures to curb spending and diversify revenues in an effort to rebalance the budget and adjust to the realities of lower oil prices.

- Fiscal consolidation continued into 2017 with the introduction of the excise tax and the tax on dependants for expatriates. Coupled with an upward correction in oil prices, these measures have helped to alleviate pressures on the country's fiscal position with the deficit anticipated to have tightened to 9.3% of GDP in 2017 according to the IMF estimates.
- A weak economic environment has been weighing on inflation levels in Saudi Arabia. The inflation rate in 2017 slipped into negative territory as the continued effects of the low oil price weighed negatively on inflation levels and economic activity in the kingdom.
- Inflation rate regained some momentum starting November 2017. Inflation is expected to trend upwards due to the recently introduced excise taxes and the implementation of a VAT regime in early 2018.
- The Saudi budget announced for 2018 showed that the government has started to loosen its fiscal policy. This measure is likely to provide a stimulus to economic growth and inflation going forward.

3.6 Country Competitiveness

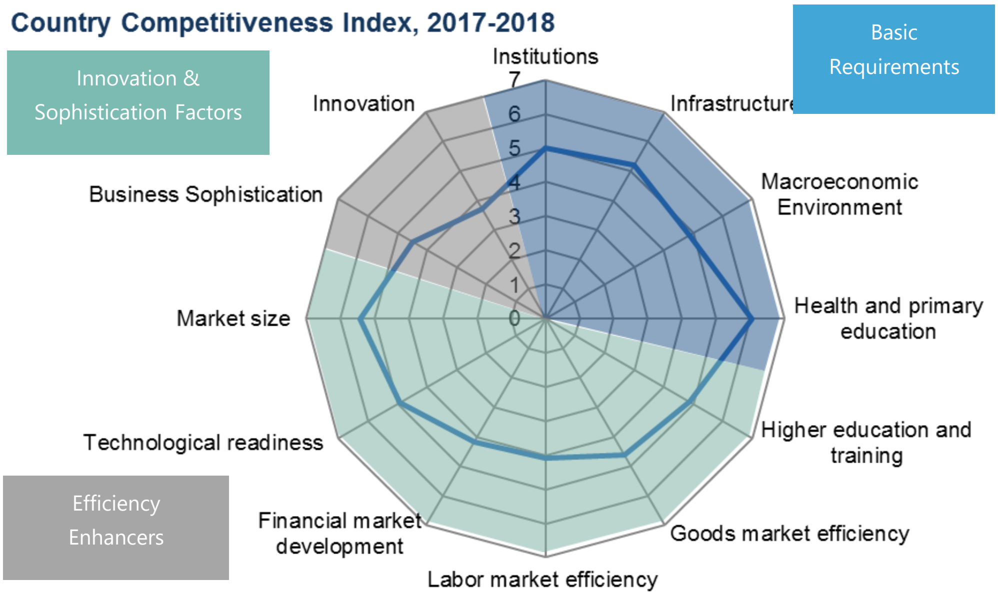


Source: World Bank Group

- In the 2018 Ease of Doing Business Survey, economies are assessed in ten different categories to determine how easy or difficult it is to open and run businesses. In the latest report, Saudi Arabia ranked 92th globally). The kingdom scored a total of 62.5 points in comparison to the 64.9 MENA average.
- Saudi Arabia performs well when it comes to issues such as "dealing with construction permits" (rank 38), "getting electricity" (rank 59) and "registering property" (rank 24).

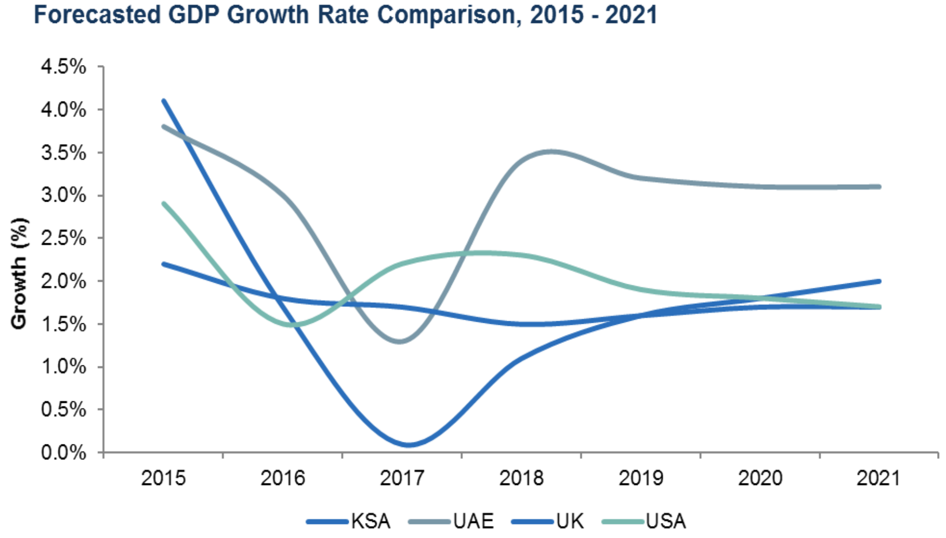
- However, in terms of "resolving insolvency" (rank 168), "starting a business" (rank 135), Saudi Arabia still lags behind many other nations.
- Saudi Arabia's overall ranking suggests that it is still a relatively opaque market, albeit there have been government efforts to increase transparency in order to attract greater foreign direct investment.

Country Competitiveness Index, 2017-2018

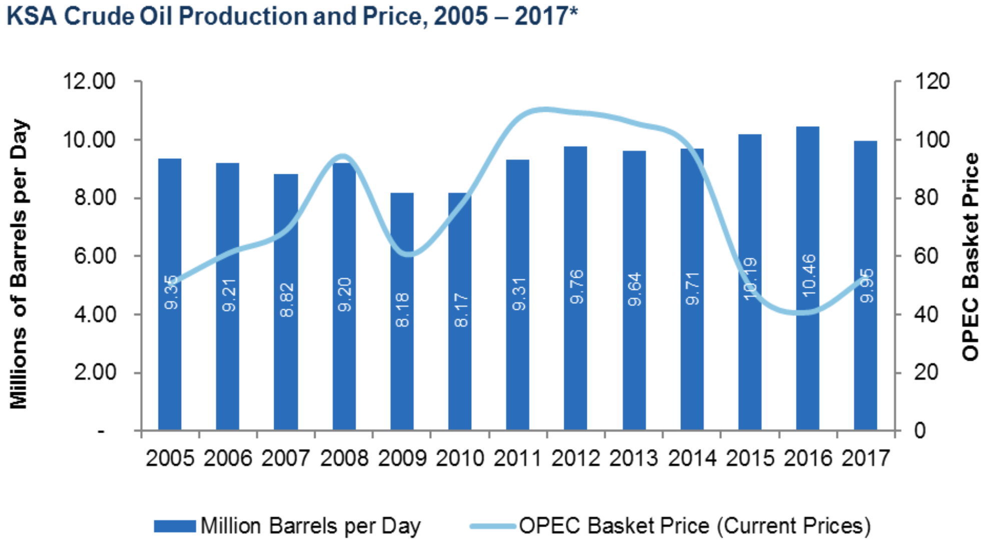


- The Global Competitiveness Report 2017-2018 ranks 137 economies in order to assess the drivers of productivity and economic development.
- The report ranked Saudi Arabia in 30th place, scoring strongly in the category of "institutions" at 26th place. The economy ranked 58th in terms of "macroeconomic environment", an upturn from previous years.

3.7 GDP, Fiscal Budget and Oil Statistics



Source: IMF October 2017 Database



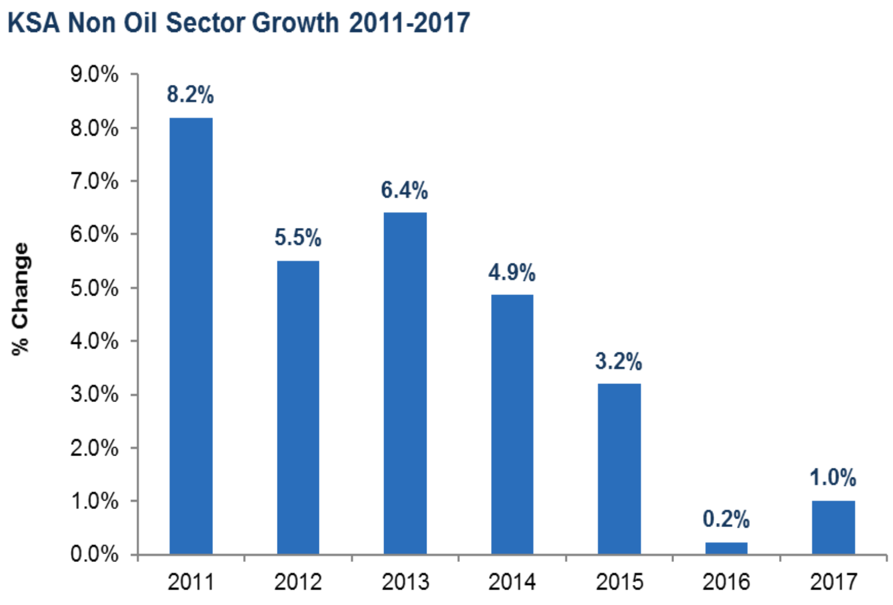
Source: SAMA, OPEC, Macrobond

* 2017 average daily oil production excluding December

- GDP growth in Saudi Arabia has averaged 2.4 percent per annum between 2013 and 2017. This compares with an average of 3.2% for the UAE and is higher than the average for developed economies such as the US and the UK, which posted average growth of 2.1 percent over the same period.
- Saudi Arabia aims to diversify the economy from its dependence on oil, create more jobs and spread wealth to different regions. A key pillar of government plans is the development of the "economic cities", initiated with around USD 70-billion of seed investment.

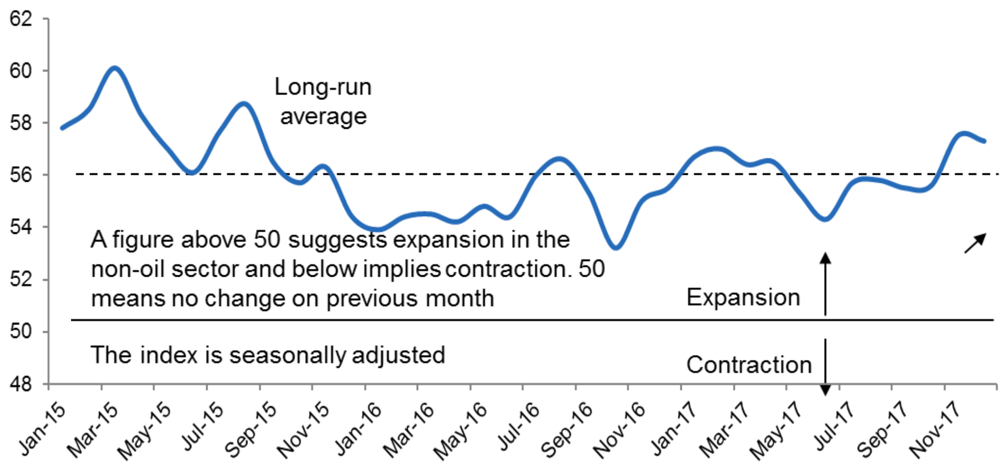
- For example the development of King Abdullah Economic City, which cost is estimated at USD 86 billion, is a key part of this diversification drive toward making Saudi Arabia a knowledge based economy rather than an extractive economy reliant on hydrocarbons.
- Nevertheless, the forecasted GDP growth between 2017 and 2021 stands at an average of 1.3 percent, lower than the UAE's 2.8 percent annual average forecast and the US's 2.0 percent annual average forecast, and only marginally lower than the UK 1.6% anticipated growth.
- In the 2017 budget, as in years prior, education, health & social affairs were given priority, with combined allocation for these sectors equivalent to nearly 40% of total national spending.
- The kingdom's total oil production stood at 10.46m barrels per day in 2016 – a figure which has decreased to 9.95m in 2017 in line with Saudi Arabia's commitment to the OPED-led supply reduction pact.
- OPEC's Basket Price fell from its peak of USD 109.45 in 2012, to its lowest point in a decade in 2016 at USD 40.76. It rebounded to an average of USD 52.92 in 2017.
- While the drop in prices has reduced government revenues, Saudi Arabia has favoured adjusting production in 2017 in line with supply management by OPEC.

3.8 Non-Oil Sector Performance



Source: GAS

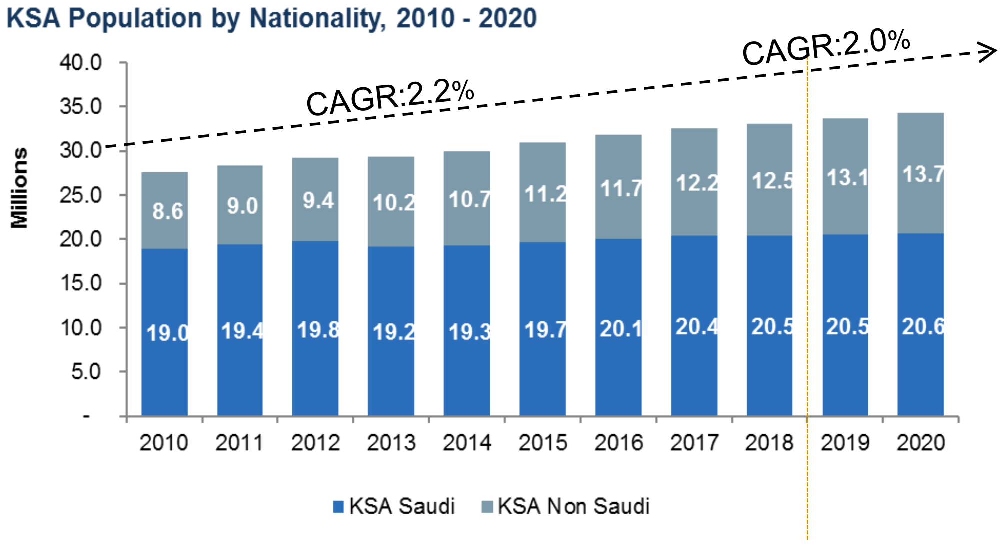
KSA Emirates NBD Purchasing Managers' Index, Jan 2015 – Dec 2017



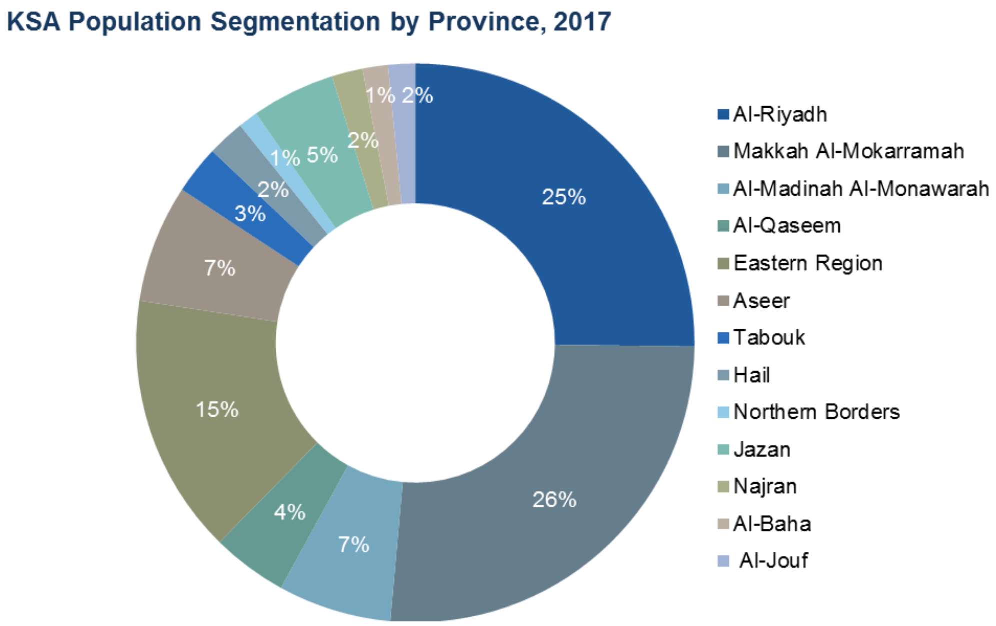
Source: Emirates NBD

- In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. The figure has rebounded to 1% in 2017.
- In 2017, the government has been gradually relaxing some austerity measures that were introduced in 2016 and which have drastically affected the public sector, particularly when considering the fact that two thirds of the Saudi workforce operate within this sector. This has included the reestablishment of all allowances, bonuses and financial benefits for civil servants and military personnel that have been previously cancelled or amended.
- Emirates NBD's Saudi Arabia Purchasing Managers' Index (PMI), which covers the entire non-oil private sector, fell to its lowest level at 53.2 in October 2016. With the value remaining consistently above the 50 level (no change mark) this suggests that there has been continued growth in the non-oil sector.
- In late 2017, the PMI has surpassed the long-run average of 56, registering two strong consecutive readings (57.5 in November 2017 and 57.3 in December 2017). This indicates an improvement in the performance of non-oil sectors.
- The PMI data provides evidence about the linkages between the nation's oil and non-oil economies. The PMI registered one of its lowest reading in January 2016 (53.9) when oil prices plunged to a decade low.
- While in the short term, growth in the non-oil sector is largely dependent on oil revenues and although austerity measures will not prove to be popular, they do show that the necessary steps are being taken in KSA for diversification.

3.9 **Population and Demographics**



Source: SAMA, IMF

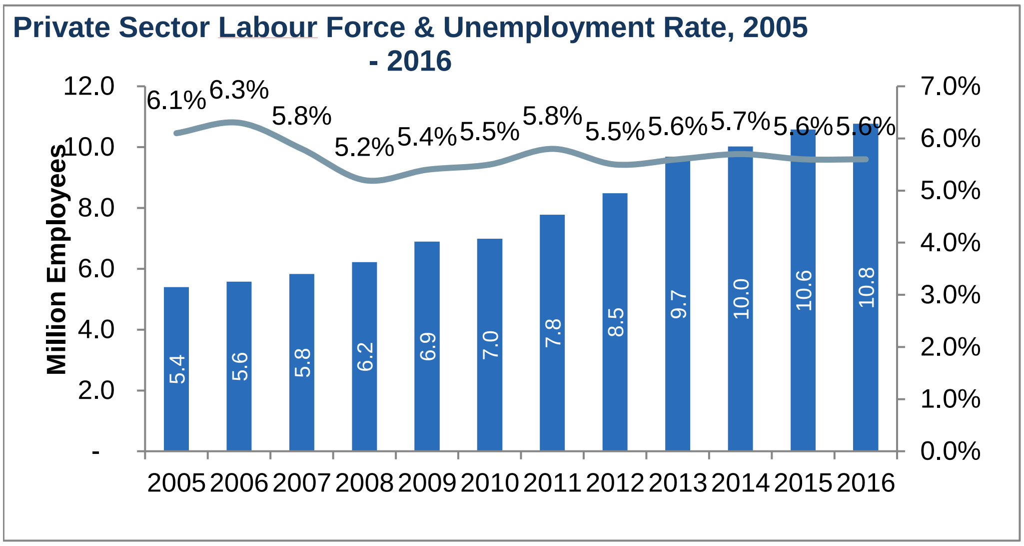


Source: GAS

- Saudi Arabia accounts for over 50% of the total population of the GCC, or roughly five times more populous than any other GCC country. According to official figures, the population stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020.

- In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population. Hence, this implies that aggregate demand for products and services does not primarily stem from the expatriate workforce.
- Despite the large weighting of Saudi nationals to expatriates, there are still a large number of resident foreign workers in the kingdom. Recognising this, the authorities announced the development of a Saudi green card, which would be available to foreign investors and highly qualified expatriates. Though not yet implemented, the green card would enable foreigners to have residency in the kingdom, much like the current system in the United States, which would have positive implications for residential demand.
- The green card system would not only generate revenues through fees, but also reduce expatriate remittances, which would in turn stimulate the local economy.
- As shown by the population forecasts, a large and growing population will continue to drive demand for goods and services in the short to medium term.
- The population segmentation shows that over half the population of the kingdom is concentrated into two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

3.10 Employment Trends

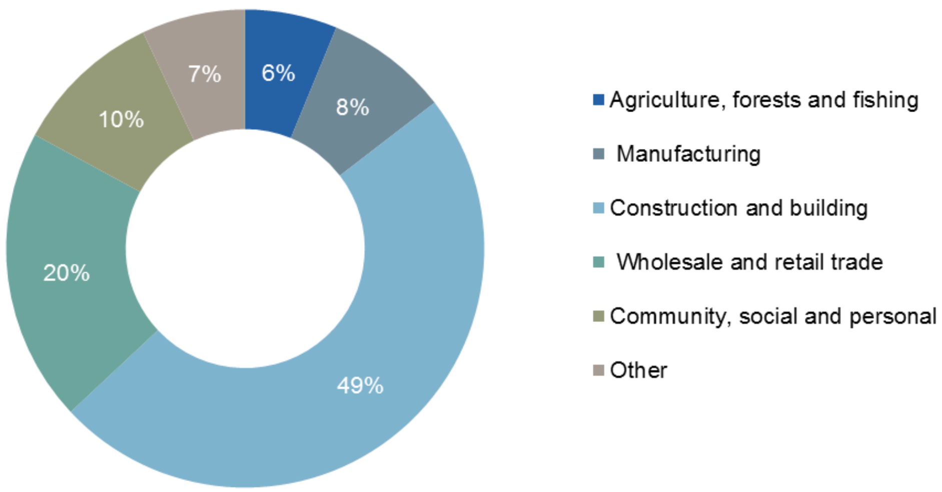


Source: SAMA, IMF

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals.
- The average unemployment rate for the Kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in line with the average long-term unemployment rate which stands at 5.7 percent for the last 15 years.

- However these figures can be misleading; according to research by Jadwa Investment, the total Saudi national unemployment rate stood at 12.1 percent in the third quarter of 2016. This was attributable to the rise in university graduates and the cessation of some government projects as per the minister of labor and social development.
- Whilst the headline figures of Saudi national un-employment look high in relation to developed economies, the accuracy and transparency of data makes this statistic difficult to analyse.
- As set out above, a key issue for the government will be providing sustainable and rewarding jobs to the growing population. The establishment of the Economic Cities is part of this drive to create a knowledge based economy which in turn will create jobs for nationals.
- The government also engaged in labour market reforms to address job creation, namely introducing the Nitaqat program. Launched in September 2011 the campaign aims at the Saudisation of the workforce. The program combines incentives that encourage firms to hire Saudis and sanctions for non-compliant ones.
- More recently, and stemming from the Saudi Vision 2030, the 15 year National Transformation Plan (NTP) focuses on integrating Saudi women in the labour market.

KSA Private Sector Employment by Economic Activity, 2016



Source: SAMA

- In 2016, the construction and building sector accounted for the largest proportion (49 percent) of private sector jobs in Saudi Arabia. This was followed by wholesale and retail trade (20 percent) and community, social and personal sectors (10 percent).

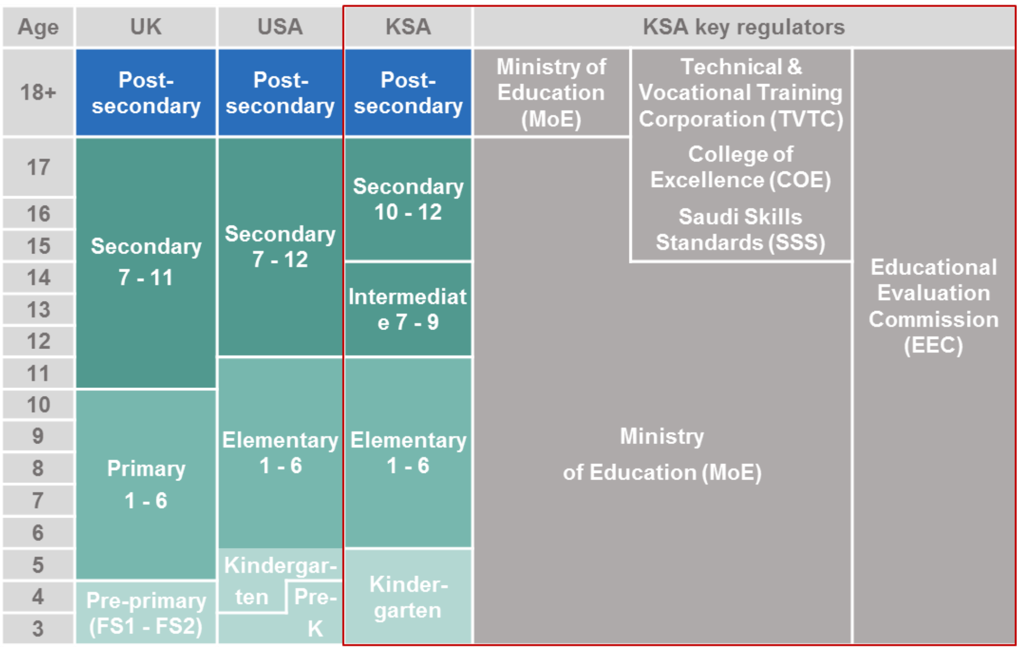
- The wholesale and retail trade sector accounts for a significant proportion (20 percent) of total employment in the kingdom – which points to the importance of the tertiary sector in Saudi Arabia's economy
- Males account for 86 percent of the total workforce.

Education Market Overview

Regulatory overview

3.11 Education system in the KSA is regulated by two main authorities:

- Ministry of Education (recently merged with Ministry of Higher Education) (i) implements standards and policies for the KSA's educational system (public and private schools, colleges and universities), (ii) responsible for general education at all levels, including special education, adult education, teacher training and literacy, (iii) responsible for the supervision, coordination and follow-up of post-secondary policy and programs, supervises universities and higher education colleges, (iv) provides support and services to universities and colleges.
- Technical and Vocational Training Corporation is responsible for developing technical and vocational programs in response to national manpower requirements, coordinates and implements the Kingdom's manpower development plans and supervises all related training centers and institutes.
- The KSA's school education system can be divided into the following education cycles/grades:
  - Kindergarten – KG 1 and KG 2
  - First (elementary) stage – Grade 1 to Grade 6
  - Second (intermediate) stage – Grade 7 to Grade 9
  - Secondary – Grade 10 to Grade 12
- The chart below presents the education system and responsibilities for each regulatory authority.



Source: Knight Frank research

Growth drivers 3.12 **Student Population**

- Around one third of population in the KSA is within school going age (5 – 18 years) creating a strong platform for establishing new schools. It is estimated that this segment of population will grow faster than the total population growth, demonstrating potential for absorbing student seats supply.

Increasing awareness of education

- Increasing enrolment rates during the past years demonstrates growing awareness of people towards education. Moreover, parents in the GCC region have started to pay more attention to attributes such as type of curriculum, a school's reputation, quality of teachers, learning environment for children, the preservation of native culture, etc. before choosing the school for their children.
- Additionally, existing gap in the quality of education between public and private sector pushes parents preferences towards private schools despite higher tuition fees.

Government Initiatives and support

- The government of the KSA places emphasis on strengthening the education sector in the country, allocating 19.6% of the Federal Budget 2018 towards education.
- Education sector is considered as one of the key mile stones of Vision 2030 and National Transformation program 2020. As part of the initiatives, the KSA's government plans to increase kindergarten enrolments, improve training and development of teachers, students' marks and core skills, upgrading curriculums

and teaching methods. The initiatives seek to utilize the human capital of the nation and in order to do so, significant investment is required to help boost the education sector of the KSA. While public funding is being channelled, the private sector participation is also being encouraged and facilitated - value of the private market is expected to more than double from current USD5 billion to USD12 billion in 2023.

Key challenges 3.13 **Government Regulations**

- The government policies in the KSA are non-transparent and the education market is not liberal, posing challenges for investment. During the past few years, the KSA government has introduced several regulations significantly effecting the operational dynamics of education providers:
  - minimum wages law for Saudi teachers working in the private sector (SAR 5,000, increased this year to SAR 5,800 per month) was imposed leading to many international schools to increase their yearly tuition fees. This negatively reflected on the student enrollment rates forcing parents to transfer their children to more affordable schools
  - existence of Saudisation policy makes it mandatory for the operators to hire Saudi nationals teachers, who often demonstrate quality issues
  - tuition fees are regulated by the government and subject to approval by the MoE based on different school parameters such as the quality of infrastructure, teachers, modern facilities, Saudisation, safety standards, etc. This could affect an operator's profitability if tuition fee increase approvals are declined by the MoE.

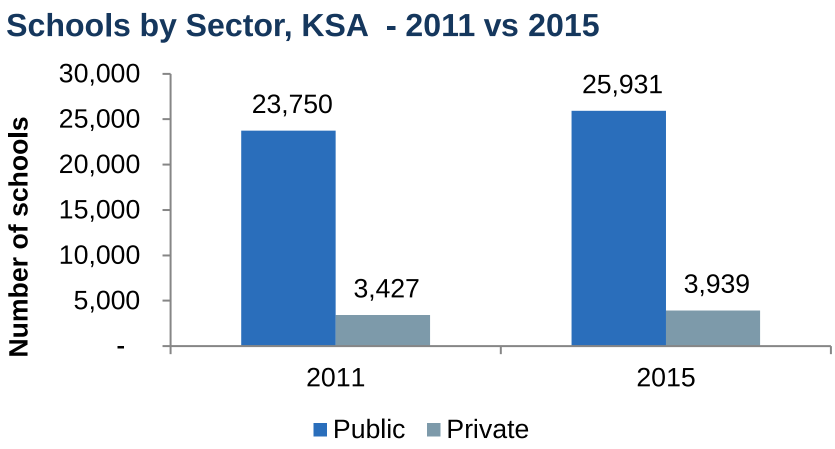
Workforce Demand and Supply

- The private education sector workforce in the KSA is currently facing a supply and demand imbalance – acute shortage of teaching staff, especially in the private sector where the requirement for skilled teachers is higher because of higher education standards. Average retention period for teachers is 2 – 3 years leading to increasing recruitment costs for operators.
- The new licensing requirement as well as the current hiring system (the visa/immigration requirements) are challenging, while pay scales are equally not attractive, discouraging the younger generation to become teachers.

High capital expenditure requirement

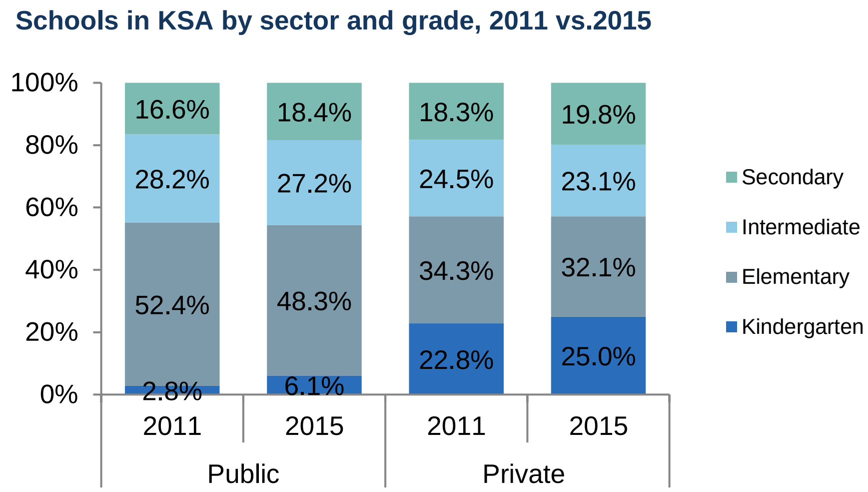
- Establishing educational institutes require significant amount of monetary resources and manpower. Consequently, this restricts and hinders the opportunity to enter in to the education sector.
- Furthermore, increasing requirements established by the MoE and Civil Defence relating to schools' infrastructure, health and safety standards and prohibition to operate in rented or not purposely built school premises considerably reiterate the issue of heavy front ended investment required for new entrants.

KSA education overview	3.14	• Overall, KSA education sector is dominated by the public sector. The share of private schools in KSA was only about 13.2%. As a general rule in the KSA, all schools have to maintain separate premises for male and female students starting from Grade 1.



Source: MoE

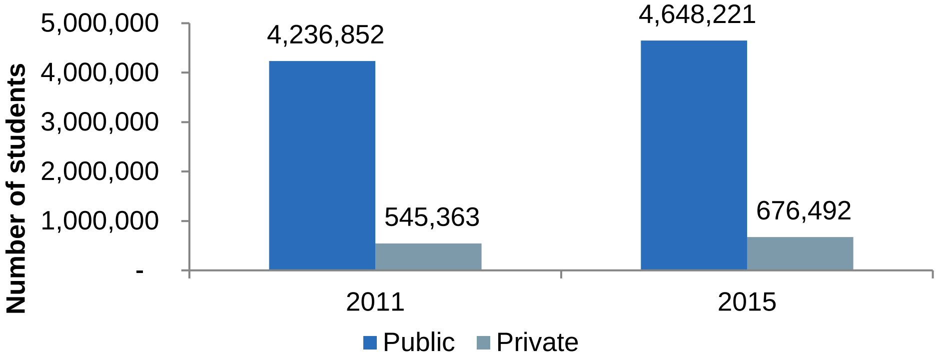
- Between 2011 and 2015, the number of schools increased by 2,693 schools, out of which 2,181 schools were added in public sector and only 512 were added in private sector.
- The chart below shows the distribution of private and public schools in KSA by education grades in 2011 and 2015.



Source: MoE

- In year 2015 private elementary and kindergarten (32.1% and 25% respectively) segment had the highest volume of students. On the other hand, in the public sector, elementary (48.3%) and intermediate (27.2%) had the highest share. This difference between sectors is explained by the fact that kindergarten does not form a part of the official education system in the KSA as children are not obliged to attend the kindergarten grade in order to be enrolled in Grade 1. However, due to government efforts, increasing income levels and awareness amongst parents of early education, the demand for pre-primary education is on the rise.
- Secondary grade offering in private schools was the smallest relative to other grades (19.8% in 2015) which could be attributed to population demographics and expatriate students travelling back to their home countries to complete their education before enrolling into higher education due to considerations of cost, quality and compatibility.
- In 2015 KSA had a total of 5,324,713 students enrolled in the school system and majority of the students (87.3%) were enrolled in the public sector.
- During 2011 – 2015 the number of private schools' students grew almost 2.4 times faster than number of students in public schools (5.5% in private sector vs. 2.3% in public sector) indicating increasing popularity of private education.

Students by Sector, KSA - 2011 vs 2015



Source: MoE

Curriculum

3.15

- A breakdown of private schools by curricula is not available in the MoE statistics. However, our research suggests that 3 main curricula are most popular: American, British and Indian.
- Popularity of British and American curriculum is attributed to global standardized curriculum and examination system that ease transferability between schools and countries – a factor that is appealing to the expatriate community. Additionally, UK and US schools aim to provide students similar educational experiences in terms of quality.
- Indian curriculum schools are popular as well, this is because they serve a large Indian community present in the KSA. In addition, due to their price point and standardized examination method, these schools also appeal to other nationalities from the subcontinent.
- In general, currently the demand for international schools in the whole country is on rise due to perception of a better quality of education and ease of transferability, enhanced by the government's decision to allow Saudi children to enroll in schools offering international curriculums.

4 School Performance Analysis

Rowad Al Khaleej - Riyadh

4.1 Rowad Al Khaleej School - Riyadh is a primary K-12 school catering to boys and girls. Currently, students are accepted up to Grade 9. Grade 9 is available only for girls.

The property was completed in 2015 and therefore is relatively new. The school has had problems obtaining approvals as the facility was not fully ready and student numbers are below what would be expected after being operational for this amount of time. Total capacity of the school is c. 3,000 student seats. We understand there are 1,004 students enrolled in the school for the academic year 2018/2019 according to the data supplied by the client, representing occupancy rate of 33%. Management believes that 100% occupancy rate will be achieved by the academic year 2021/2022.

School Fees

4.2 Due to the reasons mentioned above and according to information provided by the client, between FY 2017 – 2019 average tuition fees were reduced from SAR 32,000 to SAR 26,500 per annum (discount of 17%), which resulted in increase in total number of student from 300 in FY 2017 to 1,004 in FY2019.

As per the school website, the school has reduced the tuition fee for academic year 2018/2019 by approximately 20%. The fee structure for the school for the academic year 2018/2019 is presented in the table below:

4.3

Grade	Initial Fees Academic Year 2018/19 (SAR pa)	Discounted Fees Academic Year 2018/19 (SAR pa)
Nursery	38,000	30,400
KG1, KG2, KG3	40,000	32,000
Grades 1 -6 (Boys and Girls)	40,000	32,000
Grades 7-8 (Boys and Girls)	43,000	34,400
Grade 9 (girls only)	45,000	36,000

Source: School website

However, in the forecasted period, management is of the view the school will be in a position to increase the tuition fee in the academic year 2019/2020 by 32% to average fee of SAR 35,000. Keeping in view that the current students were attracted by the drop in tuition fees, this seems to be an aggressive assumption, and we believe the school will be forced to keep the tuition fees at the affordable level in order to maintain the current students and attract new one.

5 Investment Overview

5.1 There have been a higher frequency of published commercial investment transactions in the Kingdom of Saudi Arabia recently due to the publication of acquisitions on Tadawul of the assets acquired by listed REITS. Other than the REITS, the market is still rather opaque, meaning it is difficult to fully analyse reported transactions.

5.2 In terms of sentiment and market conditions, 2018 was a difficult year for the Kingdom of Saudi Arabia. The supply of high quality stock decreased and potential buyers tended to adopt a 'wait and see' approach due to worsening market conditions, and those that did have assets have chosen to consider the REIT route as a way to divest and obtain liquidity. 2018 saw the introduction and listing of a further number of REITS, albeit performance of these has not been positive to date.

We see the following key points as important factors to consider for any real estate related transaction:

- The white land tax has effectively switched the focus of many family offices and institutions into developing their land bank rather than purchasing income-generating properties. Reducing the buyer pool in the market would also effectively increase the asking yield on properties.
- Recent falls in oil prices have squeezed the finances of the KSA government, which has led to a surge in government borrowing.
- Attractive debt financing (interest only primarily for institutional/fund purchasers) is also hard to come by unless there are existing relationships and arrangements to achieve attractive financing.

5.3 We consider the prices being paid by REITS for real estate assets being sold on a sale and leaseback structures do not necessarily reflect the wider market risk related to the real estate assets themselves, rather the risk profile of the covenant that is taking the lease. We consider a premium is thus being paid for the covenant and security package that is being wrapped around any such transaction. It is therefore important to review in careful detail the security package, robustness of guarantees, post dated cheques, payment terms as well as getting comfort that the underlying cash flows from the asset can support the rent that is being put in place.

5.4 The transactions below show the educational facilities which have been acquired by REITS in the last 2 years.

Asset	REIT	Location	Yield	Date	Notes
Saudi Electronic University	Riyadh REIT	Riyadh	8.70%	2017	3 year lease
Al Faris International School	Al Rajhi	Riyadh	7.53%	2017	Schools, 4 floors including basement

Al Maarefah College	Jadwa	Riyadh	8.00%	2018	3,000 student capacity college facility
Rowd Al Jinan School	Jadwa	Riyadh	9.75%	2018	10 year lease from May 2018, break at 5th year.
Altarbiyah Al Muaharat School	Dereyah	Direyah	8.50%	2018	25 yr lease from September 2018.
Al Khalijiyah Training Center	Dereyah	Khobar	8.66%	2018	July 2018

5.5 Analysis of the above shows that schools when acquired are typically on the basis of a long lease (typically 10-30 years based on the above). The lease being offered for the subject schools are 15 years. Initial yields are typically in the range of 8.0 to 9.0%. We would expect these two assets to trade towards the upper end of this yield rnage based on the lot size, and the fact that the Riyadh asset is under utilised and has not performed well to date.

5.6 The subject assets were to be the subject of a REIT to be launched by Al Khaleej Training and Education in 2017 with ANB Invest. The leases being offered at the time were for a term of 20 years, with the rents to be the same as now proposed. The asking yield on the assets was 7.5%. The assets have been in the market for some 2 years, although there has been no exit to date. In the interim period since the original deal was available, we consider the market has softened, more REITS have been listed and capital raising has become more challenging due to rises in SAIBOR etc. We consider the original asking price for the assets to be aggressive in the current market.

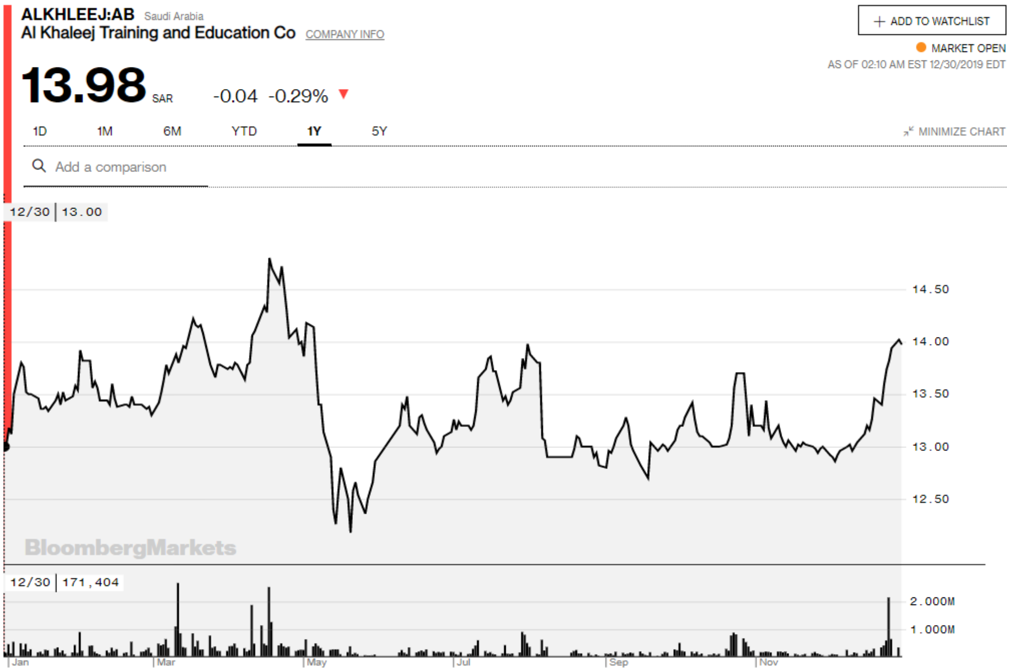
5.7 In formulating our discount rate / exit yield we have had regard to the points in the SWOT analysis above but also to the following:

- The rental level that is to be contracted versus our opinion of affordable rent the schools are able to pay
- The historic performance and student numbers and the reasonableness of the projections going forward
- The security / guarantor package that is offered with each lease contract
- The covenant strength of the tenant (Al Khaleej Training and Education)
- Opportunities for income growth in the lease
- Location – both macro (by city) and micro (by road / frontage)

The exit yield is determined by the rate which recently traded property have sold, which is then adjusted to allow for differences between the comparable evidence and subject property.

AKTE Covenant Review 5.8

Important to understand with sale and leaseback structures, and especially for schools, where ramp up in student numbers often takes some years to optimise, is the security package / guarantees in place to support the rental income contracted. The parent / operator is Al Khaleej Training and Education, which is a company listed since 2007 on the Tadawul with a market cap of SAR 624.6 million as at the 11th March 2019. The Price to Earnings ratio is 20.04. The Q1 2019 earnings announcement was due on 26th March 2019. The chart below shows the relative stock price over the last 12 months sourced from Bloomberg. The 52 week range in share price has been 12 to 15, therefore the shares are currently trending towards the higher end of the 52 week range.



Source: Bloomberg

On a quarterly basis, review of the Income Statement for Q3 2018 showed a Revenue of SAR 212 million, Net Income of SAR 18.2 million and a Profit Margin of 8.60%. Review of the Q3 2018 balance sheet showed Total Assets reported as SAR 1.339 billion, Total Liabilities at SAR 792 million and Debt to Assets ratio of 48.13%.

6 Valuation

Methodology

6.1 Our valuation has been undertaken using appropriate valuation methodology and our professional judgement.

6.2 Given that there is a proposed lease in place for the school, we have had regard to this. However, we have also undertaken a detailed cash flow analysis of the underlying school operations to understand if the school can reasonably afford to pay the levels of rent proposed based on the current and future performance. If the rents cannot be properly supported by the EBITDA from the operations of the school, then there will be a shortfall and this brings into question the affordability of the rent. The underlying cash flows thus need careful analysis.

Investment method

6.3 Our valuation has been carried out using the investment method via a DCF approach.

Affordable Rent Methodology

6.4 Based on historical performance analysis, operator projections of revenue and costs and profitability, we have undertaken our own analysis to verify the reasonableness of the projections. Our cash flows have had regard to performance of competing schools in the industry, reviews of capacity and ability to utilise capacity, staffing costs, etc. For each asset we have produced our own P&L which we believe, based on data provided allied to our own market data and projections provides a realistic top line revenue and EBITDA. Derivation of these then allow us to consider what could reasonably be paid away in the form of “rent”.

Lease Structure

6.5 We understand the client is talking to the vendor about a 15 year lease structure, which will have no break clauses, be triple net, and have 5 yearly rental escalations at 7.5% every 5 years. Discussions are taking place around a “rent” to be utilised for the potential transaction.

6.6 We understand the rent under discussion is approximately as follows:

Riyadh
SAR 19,100,000 pa

6.7 We have then undertaken the following analysis:

- Reviewed what we consider to be an affordable rent in the context of the contracted lease rent proposed for the school
- Analysed the difference between the rent proposed and the rent we consider affordable.
- We consider the rent proposed under the lease structure to be well in excess of what the school operations can afford.
- We have then provided two analyses:

Scenario 1 6.8 We have taken our own opinion of affordable rent for the asset and put this into the 15 year lease structure proposed, and provided a valuation of the asset on this basis.

Scenario 2 6.9 We have taken the proposed rent as per the contract under discussion with the vendor and provided a valuation of the assets on this basis. As we consider the lease rates proposed by the seller to be in excess of what we consider affordable, we have assigned different cap rates / risk premiums to the "core income" (i.e. the base rent we consider to be affordable), and the "over rented part" (i.e. what we consider to be in excess of the market, and would not be achievable if another operator was in place.)

In addition to the "core income" and to the "over rented part", a third component has been considered. As mentioned above, the school has significantly decreased its average tuition fees in order to increase utilization rates. Management believes that starting from the academic year 2019/2021 the school will be able to increase the tuition fee by 32%. We consider that this is an aggressive assumption, which could force students to move to more affordable schools. This incremental portion of the tuition fee has been captured separately and discounted at a higher discount rate.

Depreciated replacement cost method 6.10 We have also undertaken a cross check using the Depreciated Replacement Cost (DRC) method. The DRC method is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC method is used for certain types of properties which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their configuration, size, location or otherwise.

Valuation Assumptions

6.11 We consider that the rent proposed of SAR 19,100,000 per annum is unaffordable as represents approximately 50% of the forecasted earnings of the school. We consider a rent of SAR 13,600,000 per annum (consisting of SAR 10,500,000 based on the historic tuition fee increased by inflation annually and SAR 3,000,000 of access revenue as a result of passing to student a 32% increase in tuition fees) to be affordable, inferring that the proposed rent overburdens the school earnings by SAR 5,500,000 ("over rented portion").

6.12 Having regard to the proposed 15 year lease structure, we have considered the affordable rent part and the over rented part by assigning different risk premiums to each tranche of rental income, as the over rented part represents a greater risk to the owner, and would not be achieved on any future re-letting to another operator.

6.13 We have applied a terminal yield of 7.75% to the affordable rent and 8.5% on the incremental rent that has been calculated on the cash flows with higher tuition fee from academic year 2019 / 2020.

Valuation considerations

6.14
- The property was completed in 2015 and therefore is relatively new. The school has had problems obtaining approvals and student numbers are below what would be expected after being operational for this amount of time.
- The second floor of the school is effectively sealed off as it is not yet utilised and the school is only operating at 33% utilisation.
- The proposed lease rent is, in our opinion, unaffordable when considering the forecasted EBITDA of the school. Therefore, there is likely to be a shortfall which will need to be topped up by Al Khaleej. This means that the rent proposed to be put in place is "over rented" and above the market, and therefore heavy reliance will be placed on a security package to be put in place by the vendor in order to guarantee the rents, providing corporate guarantees, post dated rental cheques, etc.
- The school had a stuttering start, having to offer substantial fee discounts on opening due to not having full facilities ready, and in order to attract students. It will be difficult to ramp up the fees to the levels proposed from this low base and still retain students.
- The property generally has an untidy feel, there are odors from the basement and dampness in the basements where we noted mosquitos.
- The school is located in growing residential neighbourhood in North Riyadh, with good links to the major highways and a relatively short travel time to Downtown.
- A school is classified as a unique / specialised asset under IVSC and Taqeem methodology. Due to limited publically available relevant transactional information in this sector, it is challenging to draw a comparative analysis. Therefore, general market dynamics of the industry, operational performance and life cycle has to be analysed to ascertain the rent the school can pay. As can be seen in this case, the rent cover (income divided by rent) once the school has steady enrolments is in excess of 2.5x, therefore demonstrating that the school can adequately support the rent payment.

SWOT Analysis - Riyadh

Strengths	Weaknesses
• Purposely built facility • Newly constructed building • Good quality of facilities	• Low occupancy levels resulting in unreliable cash flows • Planned significant increase in tuition fees could cause outflow of students to more affordable schools • Poor quality of maintenance of the property (an untidy feel, presence of odors from the basement, dampness in the basements, etc.) could negatively impact on the image of school
Opportunities	**Threats**
• Location in growing residential neighbourhood in North Riyadh. Further development in the vicinity may stimulate demand • Good links to the major highways and a relatively short travel time to Downtown which could be used to draw students from schools that are showing signs of weakness and loosing students.	• Increasing competition in the education sector

Valuation bases

Market Value 6.15 Market Value is defined within RICS Valuation – Professional Standards as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Valuation date

Valuation date 6.16 The valuation date is 31st December 2019.

Market Value

Assumptions

6.17 Our valuation is necessarily based on a number of assumptions which have been drawn to your attention in our General Terms of Business, Terms of Engagement Letter and within this report.

6.18 In providing an independent opinion on the reasonableness and risks of this rent being sustainable, we have not been provided with detailed breakdowns for the operational school. We have been provide with a very high level projections of revenues and expenses. This is not in sufficient detail to allow us to comment on the reasonableness of the business projections, but does allow us to comment on the reasonableness of the rents having regard to the projected profitability of the school.

Key assumptions - Riyadh

6.19 Whilst we have not provided a summary of all these assumptions here, we would in particular draw your attention to the key assumptions which are particularly important / relevant :

- Buyer is to enter into a 15 year lease agreement in respect of the property
- Rent to increase by 7.5% every 5 years
- No break clauses in the lease
- FRI lease / Triple Net Lease with tenant / operator to be responsible for all operational costs
- Operator / tenant to be responsible for all capital costs under the lease agreement
- Our opinion of an affordable rent for the school based on historic performance analysis and reasonable projections of future performance is SAR 13,600,000 per annum

We have been provided with very high level projections of revenues and expenses, which in many cases were volatile. Explanations or breakdowns of the projected numbers were not provided to us, which did not allow as to consider provided projections reasonable. In this case we modelled income statement for Riyadh school based on assumptions which are discussed below the forecasted income statement (please note alternate year forecast is presented in the table below to cover a period of 10 years)

Time line	FY 2019	FY 2021	FY 2023	FY 2025	FY 2027
Students	1,000	1,959	2,728	2,853	2,853
Revenue (SAR pa)	26,500,000	69,936,300	101,324,140	110,247,989	114,702,007
Total Expenses (SAR pa)	23,499,524	47,934,894	56,010,868	60,205,549	62,637,853
EBITDAR	3,000,476	22,001,406	45,313,272	50,042,440	52,064,154
EBITDAR Margin	*11%*	*31%*	*45%*	*45%*	*45%*

- Revenue: comprises of tuition fees (student numbers x average tuition fee) and is projected to grow by inflation. Management is planning to withdraw the discount resulting in a tuition fee increase of 32% in FY2020. This assumption is aggressive given the current market conditions. Therefore, a scenario has been developed that the existing discounted tuition fee will be increased only by inflation indexation.
- Enrolment: It is estimated that the school will increase its student body from 1,004 students in FY19 to 2,825 students by FY2024 reaching occupancy rate of 95%, it is estimated that the school will continue to operate at this level.

Market Value

6.20 We are of the opinion that the Market Value of the freehold interest in the property, subject to the proposed lease agreement, at the valuation date is:

SAR 217,600,000

(Two Hundred and Seventeen Million, Six Hundred Thousand Saudi Arabian Riyals).

Sensitivity Analysis

6.21 Additionally, the following sensitivities have been carried out to test the degree of fluctuations in the market value of the school to changes in key assumptions:

- Sensitivity 1: decrease in yield and discount rates respectively by 0.25%
- Sensitivity 2: increase in yield and discount rates respectively by 0.25%

Based on sensitivity analysis, values are as follows:

Asset	Yield & DCR +0.25%	*Base Case SAR*	Yield & DCR -0.25%
Riyadh	210,000,000	***217,600,000***	222,900,000

6.22 Our opinion of Market Value equates to a capital value of :

SAR 5,600 per sq m on BUA

Calculation

6.23 We attach a copy of our valuation calculation at Appendix 6.

Market / Affordable Rent

6.24 We are of the opinion the Market Rent (Affordable Rent) of the property, as at the valuation date, is:

SAR 13,600,000

(Thirteen Million and Six Hundred Thousand Saudi Arabian Riyals per annum).

Depreciated Replacement Cost

6.25 We have been instructed to consider the property on the basis of the Depreciated Replacement Cost (DRC) approach. We comment that the Depreciated Replacement Cost Method is not the most appropriate approach to value income producing assets such as the Property.

6.26 The approach assesses the cost of providing a modern equivalent asset and adjusting this value to reflect the depreciation of the asset as a result of physical or economic obsolescence. The price of acquiring the next best alternative land is then added to the DRC to provide an opinion of market value.

In determining the value of the land we have adopted the Market Approach.

6.27 **Land comparable evidence**

Our land can be seen below together with a number of plots that are for sale in the same neighbourhood.

6.28 

Presented below is data from real estate brokers

6.29

Ref.	Asking	Size sq m	SAR/ sq m	Frontage	Type
1	17,850,000	5,100	3,500	One - Muqren	Commercial
2	8,925,000	2,550	3,500	One - Muqren	Commercial
3	15,000,000	3,000	5,000	One - Muqren	Commercial
4	7,562,500	1,375	5,500	Two - Othman	Commercial
5	9,900,000	1,650	6,000	Three - Othman	Commercial

Ministry of Justice data on sales provides for the following:

Area	Date	Date Gregorian	Price SAR	Size sq m	SAR/ sq m
Moghrazat	07/05/1439	23/01/2018	5,500,000	758	7,258
Moghrazat	02/06/1439	17/02/2018	1,550,000	750	2,067
Moghrazat	04/06/1439	19/02/2018	1,425,000	900	1,583
Moghrazat	10/08/1439	25/04/2018	1,665,000	900	1,850
Moghrazat	07/02/1440	17/10/2018	6,325,000	1,375	4,600

6.30 The data presented on land prices show a wide range. For the purpose of this analysis, we have used the land price at SAR 2,850 per sqm. This was concluded by considering factors such as; decline in land prices due to the application of white land tax, VAT, Saudisation etc. In addition, we also took into account location and size of plot.

Estimated Replacement Cost

We have analysed market construction benchmarks in KSA to derive at our estimated replacement cost for the Property if it were to be constructed at the valuation date. The applied rate has regard to the construction of a school with fixed fit out. The applied rate equals to SAR 3,500 per sq m of the built up area and SAR 2,850 per sq m for the basement.

Depreciation

We understand that the school building was completed in year 2015 and the useful life of the building is estimated in the region of approximately 35 years. Therefore, at the date of valuation the Property is approximately 4 years old. Based on the above, we have allowed for a depreciation factor of 11.4%.

The depreciated replacement cost of the building excluding the land is therefore SAR 111,000,000

Summary of DRC Approach

The table below summarises our assessment of the Depreciated Replacement Cost Approach for the Property:

Description	Depreciated Replacement Cost (SAR)
DRC of the building	111,000,000
Land	45,500,000
Total, say	**156,500,000**

We are of the opinion that the Depreciated Replacement Cost of the Riyadh School subject to the assumptions and caveats detailed herein, as at the valuation date is:

SAR 156,500,000

(One Hundred Fifty Six Million Saudi Arabian Riyals)

7 Signature

Reviewed (but not undertaken by):

Stephen Flanagan, MRICS

RICS Registered Valuer

Taqeem No. 1220001318

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Saud Sulaymani

Taqeem No. 1210001100

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

C.R 1010564516

Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Appendix 1 - Instruction documentation

TERMS OF ENGAGEMENT

Knight Frank

Client:	Al Rahji Capital
Contact person:	Avnesh Ragoowansi
Contact email:	RagoowansiA@alrajhi-capital.com

1	*Our Client and any other intended users*	Al Rahji Capital
2	*Purpose of valuation*	Acquisition
3	*Asset or Liability to be valued*	2 x School assets in Riyadh and Dammam
4	*Interest to be valued*	Freehold
5	*Type of Asset or Liability & use*	Schools
6	*Delivery of draft report*	10 working days
7	*Basis of valuation*	Market Value in accordance with the RICS Valuation - Professional Standards 2017 – including the International Valuation Standards
8	*Valuation Date*	As at the date of inspection or otherwise stated
9	*Conflicts of interest*	We have no current fee earning involvement with the properties
10	*Status of Valuer*	External Valuers
11	*Valuer and Competence Disclosure*	The Valuers with responsibility for this report will include Stephen Flanagan, MRICS, Saud Sulaymani and Alexandros Arvalis, MRICS. We confirm that the Valuers meet the requirements of the RICS Valuation Standards PS 2 having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently
12	*Currency to be adopted*	SAR
13	*Key assumptions, special assumptions, reservations, special instructions or departures*	To be advised
14	*Extent of inspection and investigations*	Our General Terms of Business for Middle East Professional Assignments and Valuations sets out the scope of our on site investigation
15	*Information to be relied upon*	We will rely upon information provided to us by you (or a third party) and will assume it to be correct without further verification. We recommend reliance is not placed on our interpretation of title and lease documents and that independent legal advice is sought
16	*Fees*	Our fee for undertaking this assignment will be SAR 65,000 + VAT
17	*Payment Terms*	Initial 50% of the total fee is payable upon signing of the Terms of Engagement. Final 50% of the total fee is payable upon submission of the draft report. The final report will not be released until payment is made in full
18	*Client review of draft report*	We will provide you with the opportunity to give any comments on the draft report, before finalising the report. You will have 5 working days to provide comments once the report has been released in Draft format. We reserve the right to charge late fees on any work undertaken after this period has expired at a rate of SAR 500 per day until all comments have been addressed
19	*Limitation of liability to Client*	We refer you to Clause 3 of our General Terms of Business for Middle East Professional Assignments and Valuations which limits our liability to you. Pursuant to Clause 3.1 we confirm that Knight Frank Valuation Services L.L.C. maximum aggregate liability to you under or in connection with this instruction whether in contract, tort (including negligence) or otherwise will in no circumstances exceed SAR 1,000,000.
20	*Liability to parties other than the Client*	The valuation is confidential to the Client and no responsibility is accepted to any other third party for the whole or any part of its contents.
21	*Publication*	Should you wish to make reference to the valuation in annual accounts or any other document, circular or statement or disclose it to a third party, we require to approve the form and context of such publication or disclosure.

الراجحي ريت
AlRajhi REIT

Our Terms of Engagement for this instruction comprise our "General Terms of Business for Middle East Professional Assignments and Valuations" which are attached, together with the specific terms contained within this sheet. Please can you sign and return this document signifying your agreement to the terms contained therein

Signed for and on behalf of Al Rahji Capital

Date:
Name:

Signed for and on behalf of Knight Frank Valuation Services L.L.C.

Date: 25 February 2019
Name: Stephen Flanagan

Appendix 2 - Riyadh Photographs

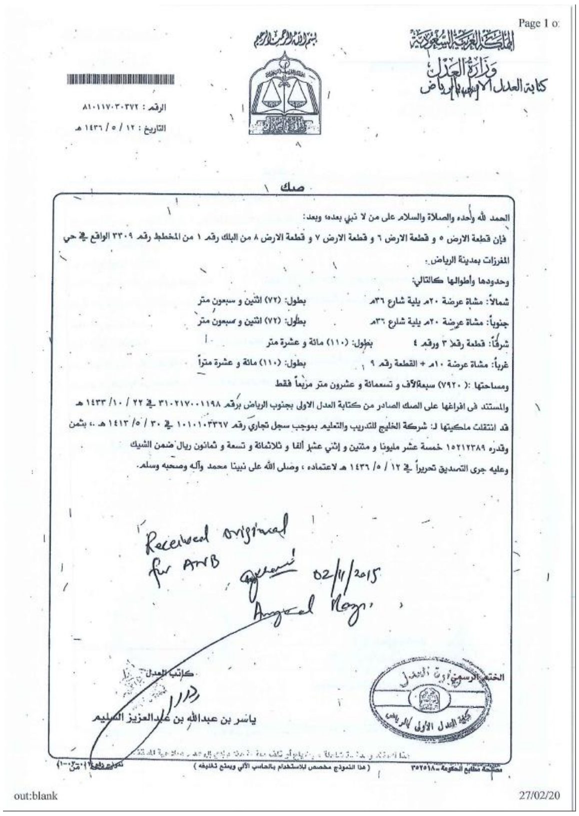
Exterior of school:

Hallway:

Class room:

Football pitch

Appendix 3 - Title Deed - Riyadh



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المملكة العربية السعودية
وزارة العدل
كتابة العدل الأولى بالرياض

الرقم : ٨١٠١١٧٠٣٠٣٧٢
التاريخ : ١٢ / ٥ / ١٤٣٦ هـ

صك

الحمد لله وحده والصلاة والسلام على من لا نبي بعده، وبعد:

فإن قطعة الارض ٥ و قطعة الارض ٦ و قطعة الارض ٧ و قطعة الارض ٨ من البلك رقم ١ من المخطط رقم ٣٣٠٩ الواقع في حي المغرزات بمدينة الرياض.

وحدودها وأطوالها كالتالي:

شمالاً: مشاة عرضة ٢٠م يلية شارع ٣٦م بطول: (٧٢) اثنين و سبعون متر

جنوباً: مشاة عرضة ٢٠م يلية شارع ٣٦م بطول: (٧٢) اثنين و سبعون متر

شرقاً: قطعة رقم ٣ ورقم ٤ بطول: (١١٠) مائة و عشرة متر

غرباً: مشاة عرضة ١٠م + القطعة رقم ٩ بطول: (١١٠) مائة و عشرة متراً

ومساحتها :(٧٩٢٠) سبعةآلاف و تسعمائة و عشرون متر مربعاً فقط

والمستند فى افراغها على الصك الصادر من كتابة العدل الاولى بجنوب الرياض برقم ٣١٠٢١٧٠٠١١٩٨ في ٢٢ / ١٠/ ١٤٣٣ هـ

قد انتقلت ملكيتها لـ: شركة الخليج للتدريب والتعليم بموجب سجل تجاري رقم ١٠١٠١٠٣٣٦٧ في ٣٠ / ٥/ ١٤١٣ هـ ، بثمن وقدره ١٥٢١٢٣٨٩ خمسة عشر مليونا و مئتين و إثني عشر ألفا و ثلاثمائة و تسعة و ثمانون ريال ضمن الشيك

وعليه جرى التصديق تحريراً في ١٢ / ٥/ ١٤٣٦ هـ لاعتماده ، وصلى الله على نبينا محمد وآله وصحبه وسلم.

Received original for ANB 02/11/2015 Angad Nagi

الختم الرسمي

كاتب العدل

ياسر بن عبدالله بن عبدالعزيز السليم

(هذا النموذج مخصص للاستخدام بالحاسب الآلي ويمنع تغليفه)

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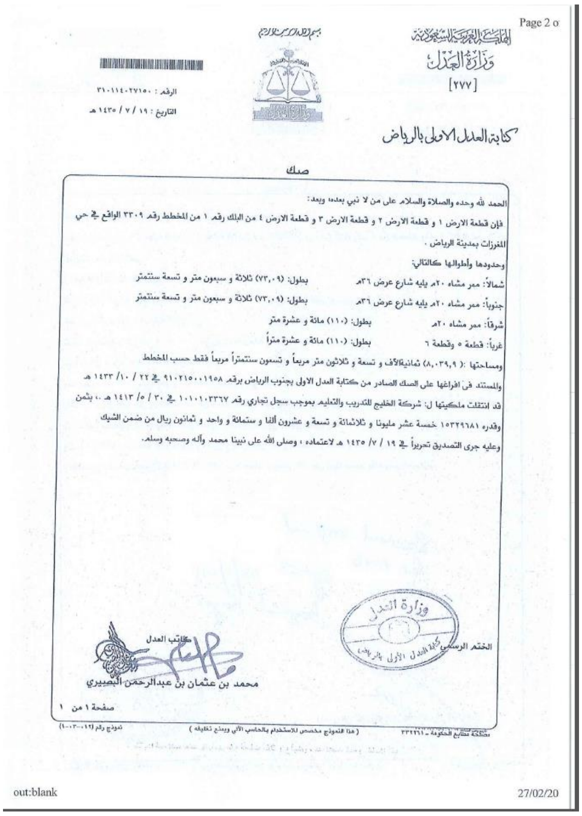

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المملكة العربية السعودية
وزارة العدل
[٢٧٧]

الرقم : ٣١٠١١٤٠٢٧١٥٠
التاريخ : ١٩ / ٧ / ١٤٣٥ هـ

كتابة العدل الاولى بالرياض

صك

الحمد لله وحده والصلاة والسلام على من لا نبي بعده، وبعد:

فإن قطعة الارض ١ و قطعة الارض ٢ و قطعة الارض ٣ و قطعة الارض ٤ من البلك رقم ١ من المخطط رقم ٣٣٠٩ الواقع في حي المغرزات بمدينة الرياض .

وحدودها وأطوالها كالتالي:

شمالاً: ممر مشاه ٢٠م يليه شارع عرض ٣٦م بطول: (٧٣,٠٩) ثلاثة و سبعون متر و تسعة سنتمتر

جنوباً: ممر مشاه ٢٠م يليه شارع عرض ٣٦م بطول: (٧٣,٠٩) ثلاثة و سبعون متر و تسعة سنتمتر

شرقاً: ممر مشاه ٢٠م بطول: (١١٠) مائة و عشرة متر

غرباً: قطعة ٥ وقطعة ٦ بطول: (١١٠) مائة و عشرة متراً

ومساحتها :(٨,٠٣٩,٩) ثمانيةآلاف و تسعة و ثلاثون متر مربعاً و تسعون سنتمتراً مربعاً فقط حسب المخطط

والمستند فى افراغها على الصك الصادر من كتابة العدل الاولى بجنوب الرياض برقم ٩١٠٢١٥٠٠١٩٥٨ في ٢٢ / ١٠/ ١٤٣٣ هـ

قد انتقلت ملكيتها ل: شركة الخليج للتدريب والتعليم بموجب سجل تجاري رقم ١٠١٠١٠٣٣٦٧ في ٣٠ / ٥/ ١٤١٣ هـ ، بثمن وقدره ١٥٣٢٩٦٨١ خمسة عشر مليونا و ثلاثمائة و تسعة و عشرون ألفا و ستمائة و واحد و ثمانون ريال من ضمن الشيك

وعليه جرى التصديق تحريراً في ١٩ / ٧/ ١٤٣٥ هـ لاعتماده ، وصلى الله على نبينا محمد وآله وصحبه وسلم.

الختم الرسمي

كاتب العدل

محمد بن عثمان بن عبدالرحمن البصيري

صفحة ١ من ١

نموذج رقم (١٢-٠٣-٠١) (هذا النموذج مخصص للاستخدام بالحاسب الآلي ويمنع تغليفه) مطابع الحكومة - ٣٢٢٢٦١

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Appendix 4 - Taqeem Licenses

Stephen Flanagan, MRICS
Partner - Head of Valuation & Advisory, MENA

Saud Sulaymani
Partner, KSA

وزارة التجارة والاستثمار
Ministry of Commerce and Investment

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

شهادة تسجيل شركة مهنية مختلطة

الرقم ٨٧٤/١٨/٣٢٣ التاريخ ١٤٤٠/٧/٣هـ

بناء على احكام نظام الشركات الصادر بالمرسوم الملكي رقم (م/٦) وتاريخ ١٣٨٥/٣/٢٢هـ ونظام الشركات المهنية الصادر بالمرسوم الملكي الكريم رقم (م/٤) وتاريخ ١٤١٢/٢/١٨هـ ولائحته التنفيذية الصادرة بقرار معالي وزير التجارة والصناعة رقم (٤١) وتاريخ ١٤١٣/١/٨هـ.

فقد تم تكوين شركة مهنية بين كل من السادة:

	اسم الشريك	الجنسية	رقم الترخيص	تاريخه	المهنة
١-	سعود محمد سليماني	سعودي	١٢١٠٠٠١١٠٠	١٤٣٩/٩/٢٣هـ	مقيم عقاري
٢-	شركة نايت فرانك اسبانيا اس أي يو	اسبانيا	٣٠٣٨٠	١٤٤٠/٧/٣هـ	التقييم العقاري

وذلك لمزاولة مهنة (التقييم العقاري) بالمملكة العربية السعودية،

باسم (شركة نايت فرانك سبين العربية السعودية للتقييم العقاري).

وتم تسجيل هذه الشركة بسجل الشركات المهنية بالإدارة العامة للشركات رقم ٨٧٤/١٨/٣٢٣ التاريخ ١٤٤٠/٧/٣هـ.

سددت رسوم التسجيل بالإيصال رقم (٠٠١٤٠٥٦٦٧٣) وتاريخ ١٤٤٠/٧/٣هـ . لمدة تنتهي في ١٤٤٥/٧/٣هـ

الختم الرسمي

وزارة التجارة والاستثمار
Ministry of Commerce and Investment
إدارة خدمات الشركات

مدير مركز خدمة العملاء بشمال الرياض

٣/٧/١٤٤٠هـ

ريان بن محمد الشفاوي

عنه / سعد محمد القحطاني

Valuation report

Baraem Rowad Al Khaleej International Kindergarten in Riyadh, KSA

Prepared on behalf of **Al Rajhi Capital**

Date of issue: **31st December 2019**

Contact details

Al Rajhi Capital, Musa Ibn Nusair St., Olaya, 12214, Riyadh
Avinash Ragoowansi, Tel no, RagoowansiA@alrajhi-capital.com

Knight Frank Spain Saudi Arabia Real Estate Valuations Company, Building WH14, 1st Floor, Al Raidah Digital City, Riyadh, Kingdom of Saudi Arabia

Stephen Flanagan, +971 4 4512 000, stephen.flanagan@me.knightfrank.com

KF ref: KFV152-2019

Executive summary

The executive summary below is to be used in conjunction with the valuation report to which it forms part and is subject to the assumptions, caveats and bases of valuation stated herein and should not be read in isolation.

Address	Baraem Rowad Al Khaleej International Kindergarten, Prince Abdullah Bin Saud Bin Abdullah Sneatan Al Saud Street, Sahafa, North Riyadh
Location	The property is located in the Sahafa District of Riyadh, a predominantly residential suburb of North Riyadh, being some 15 km to the south west of King Khalid International Airport and some 5 km to the north of King Abdullah Financial District. The major highways providing access to this area include King Fahd Road (1.2 km to the west) and King Salman Road (1.4 km to the north).
Description	The property comprises a bespoke built kindergarten facility, which was constructed in 2013. It has a total BUA of 2,549 sq m, is arranged over basement, ground and first floor levels, and has a secure yard and parking area within a gated area.
Areas	BUA: 2,549 sq m. Plot area: 1,830 sq m
Tenure	The asset is held with freehold title, under a title deed articulated in the report
Tenancies	The client intends to acquire the asset subject to a proposed lease which will be for 15 years in length, be full repairing and insuring (triple net) with the tenant being responsible for all opex, capex and repairs and maintenance. The rent will escalate at 5% every 5 years and there will be no provisions for termination. The lease will be guaranteed with a parent company corporate guarantee from the listed parent company, Al Khaleej Training and Education.
Planning	We have assumed that the property has full planning consent as built.
Valuation Methodology	We have determined an “affordable” rent, which the school can reasonably afford to pay from its EBITDA based on our assessment of future performance. We have compared this to the proposed rent, which will be put in place by the vendor under the proposed sale and leaseback structure. The proposed rent is, in our opinion, considerably in excess of an affordable rent. Therefore we have, in our discounted cash flow analysis, applied a greater risk premium to the “over rented” element of the lease rent, based on the theory that this rent could not be achieved should the operator not be in place and the school be let to another operator. We have then undertaken our valuation based on the 15 year lease structure being put in place.

Valuation considerations

- The rent proposed for the asset is well in excess of what we deem to be an affordable rent that the school operations can reasonably support. There is a danger that any default would leave the landlord in a difficult position and with school that would be very difficult to re-let. The entire deal is underpinned by the tenant company guarantees and covenant strength.
- The nature of the school is such that if there was any lease default and the properties became vacant, there would only be two options – a) re-let to another operator (assuming there was an operator willing to take the building or b) redevelop the site for another use.
- The Depreciated Replacement Cost of the asset is considerably lower than the Market Value reported as build costs for a school of this type are low in KSA and land values have fallen a lot in KSA over the last 3-4 years. What this means is that it is viable for another operator to acquire land and build a school in this area, if there was a market for another curriculum etc, which could be done affordably. The land cost etc would not be a barrier to a new market participant.
- The School commenced operations 6 years ago with an initial enrolment of circa 97 students. According to provided engineering certificate, the capacity of the school is 450 student seats and the management believes that the school will operate at 100% capacity by 2022. Some matters that have come to light during the visit to the school:
    - The school has 17 classrooms (7 on the ground floor and 10 on the first floor) that have between 12 students to 16 students enrolled.
    - In terms of class rooms area, it seems that it will be difficult to fit more than 20 students per class (consideration should also be given to the tuition fee the school is currently charging compared to the facilities available to for students)
    - Based on our perceived capacity based on our visit, the school can only house 340 students
    - Tuition fee was reduced to SAR 25,027 per annum in 2018, representing a discount of SAR 7,000 to the fee charged in 2017. This step was undertaken to attract students to the school, as new enrolments were negligible. The following points are noteworthy:
        - Prior to reducing the tuition fee the number of enrolled students were 170 (4 years in operations) representing an average of 43 new enrolments per annum. After reducing the tuition fee, the school added 90 students, representing an additional 45 students per annum. Clearly indicating that the tuition fee decline will have to be maintained to draw students keeping in view the economic conditions

- Projections show that the tuition fee will revert to SAR 32,000 in FY19, but when we spoke to the admissions office, they are clear that the tuition fee is to remain stable for a period of 2 years. Beyond this period, they do not have visibility. a

Valuation date	31st December 2019
Market Value	We are of the opinion that the Market Value of the property on the basis of the proposed 15 year lease with AKTE may be expressed as: **SAR 19,000,000** **(Nineteen Million Saudi Arabian Riyals).**
Market Value on Special Assumption	Market Value on a "Special Assumption" has been calculated by giving consideration to the following assumptions by school management: • Capacity of the school should be 450 students • Tuition fee will revert to the level of SAR 32,000 in academic year 2019/20 representing an increase of 25% The Market Value on the Special Assumption above may be expressed as: **SAR 20,300,000** **(Twenty Million, Three Hundred Thousand Saudi Arabian Riyals)**
MV analysis	

Metric	Riyadh
Net Initial Yield	8.95%
Market Value SAR per sq m BUA	7,500
Contracted Rent (SAR p.a.)	1,700,000

Contents

Appendices

Appendix 1 - Instruction documentation

Appendix 2 - Photographs

Appendix 3 - Title Deed - Riyadh

Appendix 4 - Valuation calculation

Appendix 5 - Valuation calculation – Alternative scenario

Appendix 6 - Taqeem Licenses

1 Instructions

Engagement of Knight Frank Spain Saudi Arabia Real Estate Valuation Company

Instructions	1.1	We refer to our Terms of Engagement and General Terms of Business dated 20 March 2019 which were signed and returned to us on 01 March 2019, to provide a valuation report on Baraem Rowad Al Khaleej International Kindergarten in Riyadh ("the property"). Copies of this document is attached at Appendix 1.
	1.2	This valuation has been carried out in accordance with our General Terms of Business for Valuations ("General Terms of Business").
Client	1.3	Our client for this instruction is Al Rajhi Capital ("the Client").
Valuation standards	1.4	This valuation has been undertaken in accordance with RICS Valuation – Global Standards 2017, incorporating the International Valuations Standards, and RICS Professional Standards July 2017. References to "the Red Book" refer to either or both of these documents, as applicable.
Purpose of valuation	1.5	You have confirmed that this valuation report is required for the purposes of acquisition by Al Rajhi REIT as an income generating asset.
Conflict of interest	1.6	We confirm that we do not have any material connection or involvement giving rise to a conflict of interest and are providing an objective and unbiased valuation.
	1.7	We are acting as External Valuers, as defined in the Red Book.
Responsibility to third parties	1.8	Our valuation report is only for the use of our Client and no liability is accepted to any third party for the whole or any part of its contents.
Disclosure & publication	1.9	Neither the whole nor any part of this valuation nor any reference thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form or context in which it may appear.
Limitations on liability	1.10	No claim arising out of or in connection with this valuation report may be brought against any member, employee, partner or consultant of Knight Frank Spain Saudi Arabia Real Estate Valuation Company ("Knight Frank"). Those individuals will not have a personal duty of care to any party and any claim for losses must be brought against Knight Frank.
	1.11	Knight Frank's total liability for any direct loss or damage caused by negligence or breach of contract in relation to this instruction and valuation report is limited to the amount specified in the Terms of Engagement letter, a copy of which is attached. We do not accept liability for any indirect or consequential loss (such as loss of profits).
	1.12	The above provisions shall not exclude or limit our liability in respect of fraud or for death or personal injury caused by our negligence or for any other liability to the extent that such liability may not be excluded or limited as a matter of law.
Expertise	1.13	In accordance with VPS3 of the Red Book, the valuer, on behalf of Knight Frank, with the responsibility for this report is Stephen Flanagan MRICS, RICS Registered Valuer.

We confirm that the valuer meets the requirements of the Red Book, having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently.

Vetting 1.14 This report has been vetted as part of Knight Frank's quality assurance procedures.

Scope of enquiries & investigations

Inspection 1.15 We were instructed to carry out an internal inspection of the property. Our inspection of the property was undertaken on 25th March 2019 by Stephen Flanagan.

Investigations 1.16 The extent of enquiries/investigations made is set out in our General Terms of Business. In carrying out this instruction, we have undertaken verbal / web based enquiries referred to in the relevant sections of this report. We have relied upon this information as being accurate and complete.

1.17 As previously agreed with you, the enquiries undertaken by us in this instruction have been limited in the following respect:

Information provided 1.18 In this report we have been provided with information by Al Khaleej Training and Education, its advisors and other third parties. We have relied upon this information as being materially correct in all aspects.

1.19 In particular, we detail the following:

- Information relating to the extent of the property site area, produced by Al Khaleej Training and Education
- Information relating to the property built up area, produced by Al Khaleej Training and Education
- Information relating to the performance of the property in 2017 and 2018 only, from Al Khaleej Training and Education
- We did request detailed financial breakdowns for each asset, this could not be provided in full. As a result, this has not allowed us to complete a formal and proper due diligence on the Riyadh asset. We have therefore had to make a number of assumptions, which place a greater degree of uncertainty and subjectivity on our projections and valuation.

1.20 In the absence of any documents or information provided, we have had to rely solely upon our own enquiries as outlined in this report. Any assumptions resulting from the lack of information are also set out in the relevant section of this report.

Valuation bases

1.21 In accordance with your instructions, we have provided opinions of value on the following bases:

Market Value (MV) 1.22 The Market Value of the freehold interest in the property in its current physical condition, subject to a proposed 15 year lease (terms to be defined within).

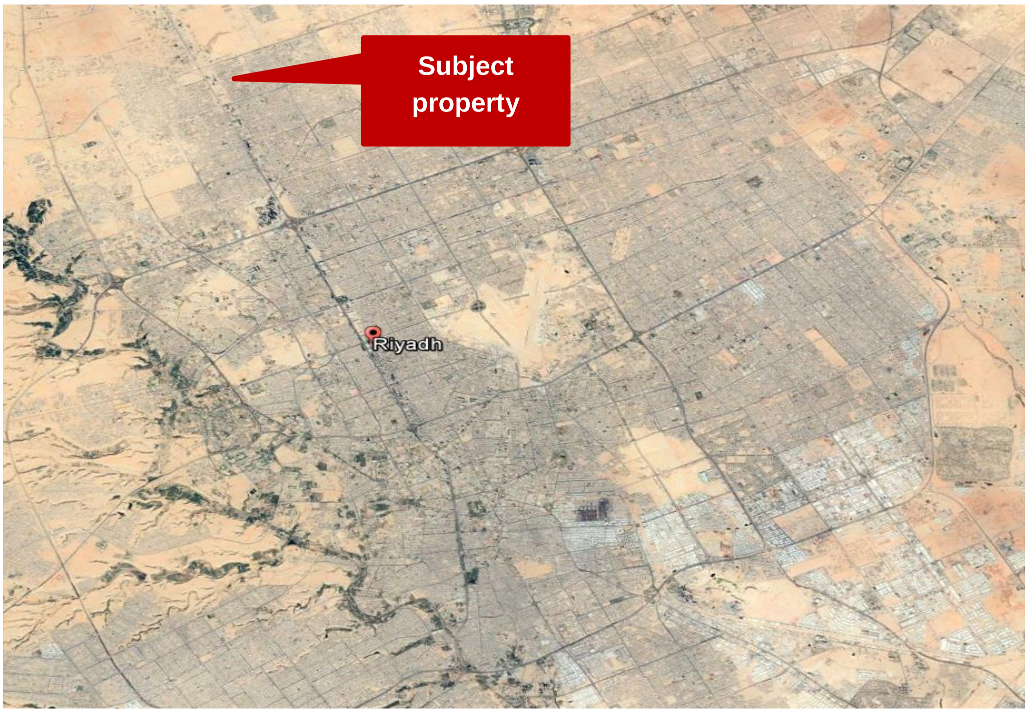
Market Rent (MR)	1.23	The Market Rent of the property. We have undertaken our own analysis of the schools performance based on the data provided to date. In the absence of detailed information, assumptions on school performance were made in order to determine what the schools can generate by way of EBITDA and thus what, as an operational business, they can realistically afford to pay as an "affordable rent" for the premises.
Market Value (Special Assumption)	1.24	The market value has been calculated by giving consideration to the following special assumptions, provided by management: • Capacity of the school should be considered as 450 students • Tuition fee will revert to the level of SAR 32,000 in academic year 2019/20 representing an increase of 25%
Valuation date	1.25	The valuation date is 31st December 2019.

2 Property Description and Details

Location

Baraem Rowad Al Khaleej International Kindergarten

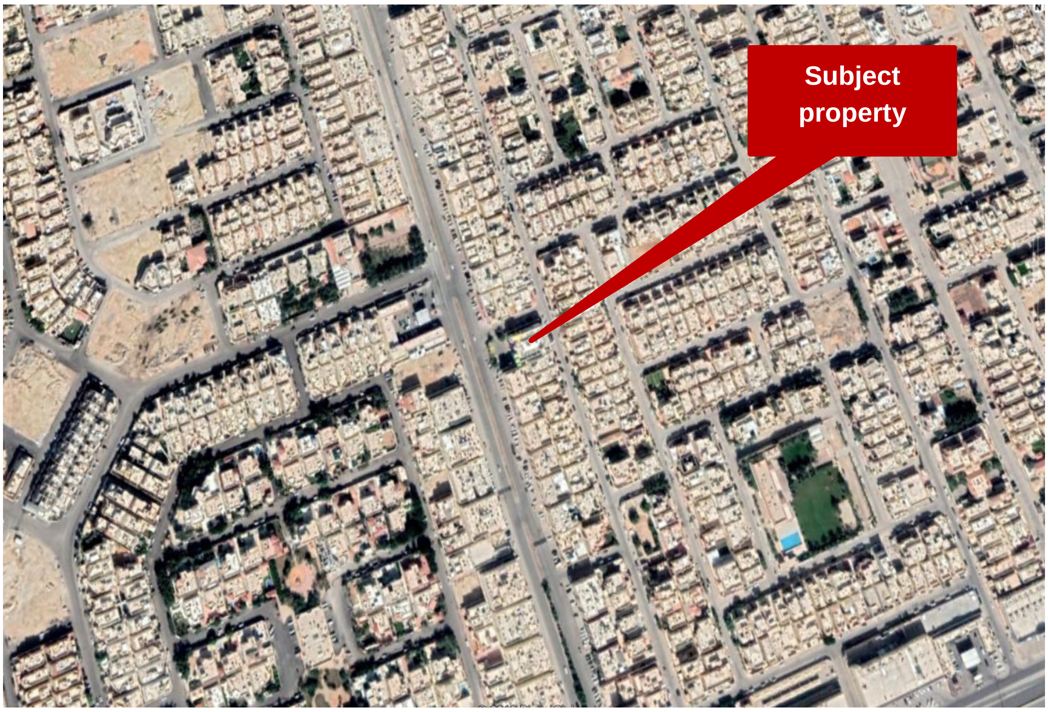
2.1 As shown in the map below, the property is located in the Sahafa District of Riyadh, which is classed as North Riyadh, being some 15 km to the south west of King Khalid International Airport and some 5 km to the north of King Abdullah Financial District. The major highways providing access to this area include King Fahd Road (1.2 km to the west) and King Salman Road (1.4 km to the north).



Source: Google Earth

2.2 The property itself fronts onto Prince Abdullah Bin Saud Bin Abdullah Sneatan Al Saud Street.

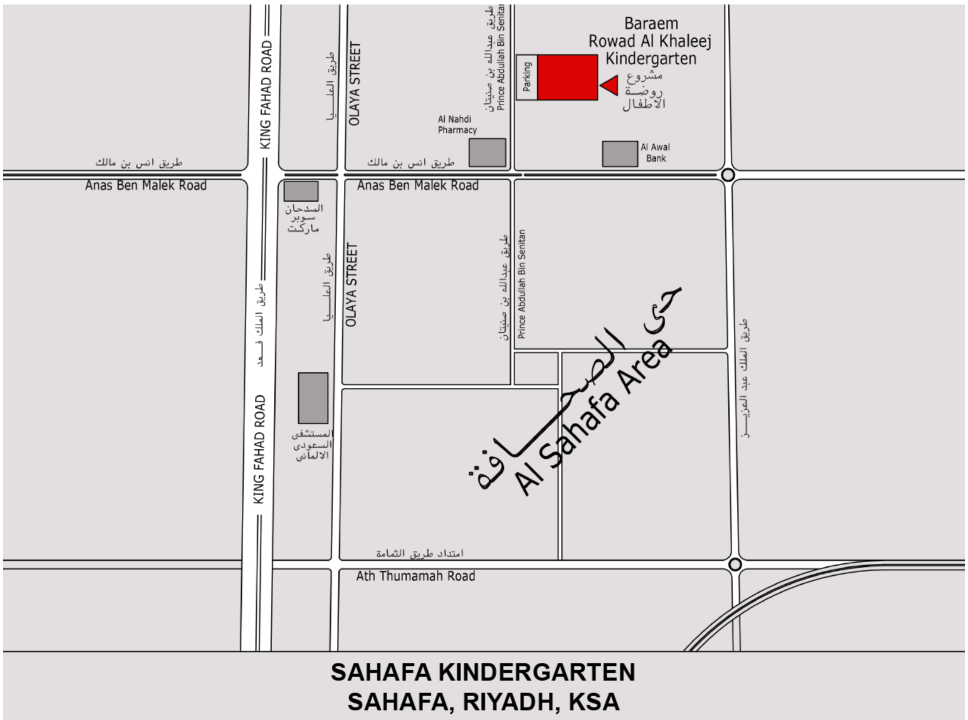
2.3 The street plan below shows the location of the property. The property itself is slightly set back from the main building line, allowing a small secure parking area to the front of the property, off the street. Parking on street is available to the front, side and rear.



Site

Site area 2.4 The property occupies a flat rectangular site of approximately 1,830 sq m according to the documents provided by the client. The part of the site that is not developed is used as a car park for the property.

Site plan 2.5 The property is identified on the site plan below, showing our understanding of the building coloured in red and surface parking in grey.



Source: Client

Description

2.6 The property comprises a bespoke built kindergarten facility which was constructed in 2013 in a predominantly residential suburb of North Riyadh, in the district of Sahafa. It is arranged over basement, ground and first floor levels and has a secure yard and parking area within a gated area.

2.7 The property is constructed around a reinforced concrete frame, with concrete elevations. Externally, the building is slightly unusual, with an irregular façade, comprising coloured cladding panels and fenestration in a variety of shapes and sizes, all being aluminium framed and double glazed. The floors are solid reinforced concrete and the roof structure is an unusual pre-tensioned “tent like” canopy structure supported by steel cross beams. The roof cover appears to be pvc material which is hard wearing and capable of cleaning.

2.8 Internally, the property is laid out over basement, ground and first floor levels. The basement is accessed via a main set of stairs, a gentle ramp structure and a set of emergency stairs from the ground floor area. The building has a central open atrium reaching from basement to 1/F level, and the open area of the basement is a kids play area which has an astro turf floor finish and incorporates climbing frames and kids play area. Around the perimeter of the basement level there are a series of rooms including a multi purpose hall, computer lab, kitchen, office, janitor room, library, toilets and utility room.

2.9 The ground floor level is open to the central atrium to the basement below and has a series of classrooms, offices, reception areas around the perimeter. There is a main entrance door, porch and reception at the entrance, and a large open play area taking up the majority of the floor.

2.10 The first floor has a small open central atrium area to below and is accessed via the main front staircase, or a set of rear emergency stairs. The floor is laid out with ten classrooms, 3 offices, a clinic and toilets, pantry and janitors room.

2.11 The internal finishes in the building are good quality. Floors are finished with a mix of tile (basement area) and astro turf (basement play area). There are rubberised floor coatings in certain areas. Walls are painted and plastered and lighting is via spotlights set in the ceilings. The building has a sprinkler system in the case of fire and cctv throughout. There is a laundry room, IT room and aluminium casement windows.

2.12 There are 16 car spaces at grade in the secure yard to the front of the building, which has a secure gated entry system.

2.13 A series of external and internal photographs of the property follow:

Front elevation

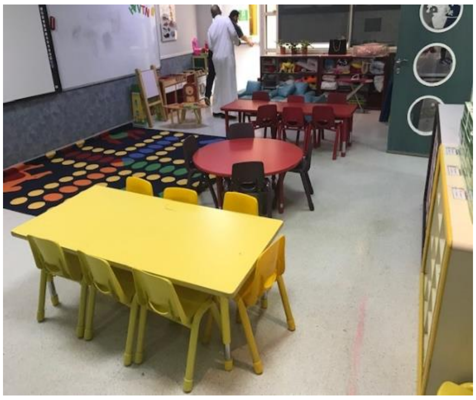
Side elevation – boys schools

Side / rear elevation

Interior


Typical classroom


Typical classroom


Typical classroom

Typical classroom

Accommodation

Measurement 2.14 As agreed with Al Khaleej Training and Education we have relied upon floor areas provided to us by their Head Engineer. No further verification has been undertaken. These are as follows:

Floor areas

Table 1: Floor Areas

Unit	Description	Sq m	Sq ft
Below Basement	Electricity Room	20	.215
Basement	Facilities	681	7,330
Ground	Educational	924	9,946
First Floor	Educational	924	9,946
Total		**2,549**	**27,437**

Source: Client

2.15 The valuation given does not include any chattels or contents within the property.

Services

2.16 In accordance with the General Terms of Business enclosed at Appendix 1, no tests have been undertaken on any of the services.

2.17 We have assumed for the purposes of this valuation that mains gas, water, electricity, drainage and telecommunications are all available to the subject property.

Legal title

Tenure 2.18 We have been informed that title to the property is freehold.

Legal Documentation 2.19 The pertinent legal details are as follows:

Title Deed No.	Area sq m	Owner
710107020195	1,830	Al Khaleej Training and Education Company

Source: Client

2.20 It is assumed that there are no onerous restrictions or outgoings contained within the title that would impact on the valuation provided within this report.

2.21 These assumptions should be verified by your legal advisors. If they prove incorrect, any variation may have a material impact on value and should be referred back to us for further comment.

Covenants 2.22 We have assumed that the property is not subject to any unusual or onerous covenants, restrictions, encumbrances or outgoings.

Tenancies

Proposed heads of terms 2.23 We have been informed by the Client that the lease will be on a triple net basis whereby all the maintenance and insurance expenses are borne by the tenant.

We understand that the lease will commence in 2019, however we have not been provided with the exact start date and end dates. We understand that the lease is for 15 years and is subject to a contracted rental increase of 7.5% every 5 years.

We set out below the salient points:

Item	Description
Demise	Baraem Rowad Al Khaleej International Kindergarten
Lessor	REIT
Lessee	Al Khaleej Training and Education
Lease commencement date	2019
Lease expiry date	2034
Term	15 Years
Lease rent	SAR 1,700,000 per annum
Escalation	7.5% every 5 years

Source: Client

2.24 We also understand that the Property does not contain any unusual or unduly onerous encumbrances or constraints, which would detrimentally impact its value or marketability.

Condition

Scope of inspection

2.25 The property was inspected on 25th March 2019 by Stephen Flanagan MRICS, Partner, and Ahmad Aledrisi, Analyst. Our inspection was on a visual basis only, both in internally and externally. We have assumed there have been no material changes to the property since the inspection date.

2.26 During our inspection, no major defects or serious items of disrepair were noted which would be likely to give rise to a substantial capital expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

2.27 At the date of inspection, the building appeared to be in a generally reasonable state of repair commensurate with its age and use. No urgent or significant defects or items of disrepair were noted which would be likely to give rise to substantial expenditure in the foreseeable future or which fall outside the scope of the normal annual maintenance programme.

Ground conditions

2.28 We have not been provided with a copy of a ground condition report for the site. We have assumed that there are no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

Environmental considerations

Contamination

2.29 As stated in the General Terms of Business, investigations into environmental matters would usually be commissioned from suitably qualified environmental specialists. Knight Frank is not qualified to undertake scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor do we undertake searches of public archives to seek evidence of past activities which might identify potential for contamination

Planning

2.30 We understand that the property as built has full planning consent. We have been provided with a copy of the construction license detailing consent for kindergarten use, and a total BUA of 2,549 sq m.

Highways and access

Highways

2.31 We have assumed that there are no current highway proposals in the immediate vicinity likely to have a detrimental effect upon the property within the foreseeable future.

Access

2.32 In reporting our opinion of value, we have assumed that there are no third party interests between the boundary of the subject property and the adopted highways and that accordingly the property has unfettered vehicular and pedestrian access.

2.33 We have assumed that there are no issues relating to visibility displays, which may impact upon the use or proposed use of the property.

3 Market analysis

KSA Economic overview

Key Findings 3.1 **Economic Factors**

- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the last five years, collectively contributing to 23 percent of the GDP in 2017.
- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This trend is largely due to the sharp decline in oil prices in recent years. The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has been declining as a share of GDP over the past 5 years.
- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However, oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price. In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. This figure has rebounded to 1 percent in 2017.
- Looking forward, the GDP growth rate in KSA is not going to reach the levels that it once was in the recent past. The IMF reports that GDP growth will recover to 1.1 percent in 2018, and projects that it will further improve to 1.6 percent in 2019 before rebounding to around 2.0 percent in 2020.
- These projections imply that the historic growth in the real estate sector will also be more muted than in the past, making real estate investment a riskier endeavour. This is despite government plans of the development of the “economic cities”, initiated with around USD 70 billion of seed investment with the aim to reduce oil dependency, as there are concerns that these plans may be affected by the delays and scaling back of many real estate and infrastructure projects.
- Efforts by the government to diversify the economy and increase the non-oil sector share is expected to lead to an increased focus on tourism and hospitality. The aforementioned sectors are expected to get a further boost from the government’s effort to be transparent, encouraging direct foreign investment.

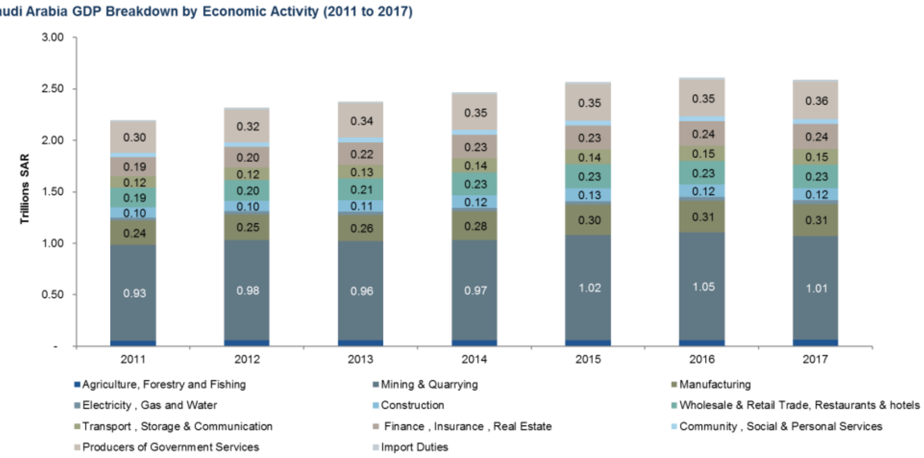
3.2 **Demographic Factors**

- The population of Saudi Arabia stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020. In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population.
- As shown by the forecasts, a large and growing population will continue to drive demand for goods and services in the longer term. The population segmentation

shows that over half the population is concentrated in two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals. The average unemployment rate for the kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in-line with the average long-term unemployment rate which stands at 5.7 percent for last 15 years. However, the total unemployment rate of Saudi Nationals stood at 12.3 in 2016, the discrepancy arising due to the fact that expatriates require employment in order to have residency in the country. This has spurred "Saudization" policies in 2016 that will reduce Saudi unemployment, but also significantly reduce the growth of the expatriate population.
- These demographic factors have overall positive implications for real estate investment – population numbers will continue to grow and increase demand in the residential, retail, and tourism sectors. The reduction of Saudi unemployment will increase overall household incomes as Saudis are costlier labour than non-Saudis and do not repatriate their incomes and are thus more likely to invest in the country. This could potentially counteract the expected decrease in the population growth.

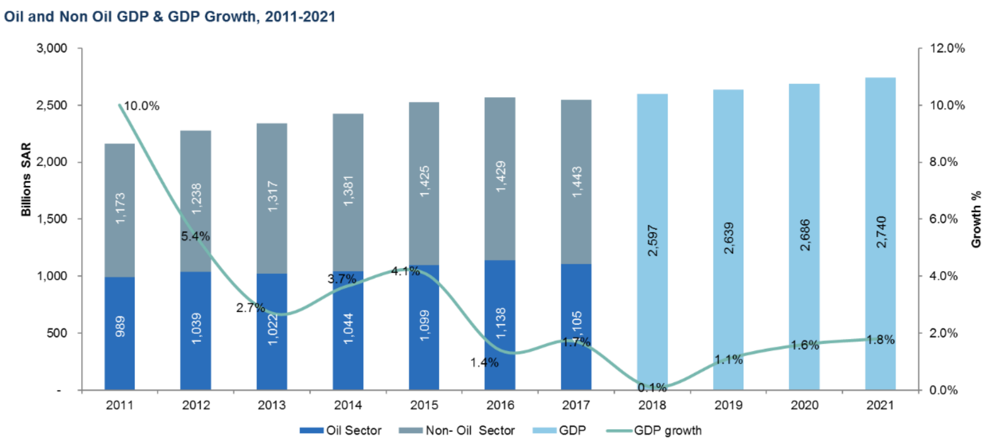
3.3 Saudi Arabia GDP Breakdown by Economic Activity (2011 to 2017)



Source: General Authority for Statistics

- While GDP growth stood at 10.0 percent in 2011, 2017 saw growth slow to 0.1 percent. This decline was largely attributable to the sharp decline in oil prices in recent years.
- The largest sector in Saudi Arabia is mining and quarrying (largely comprising crude oil & natural gas), which has steadily been declining as a proportion of overall GDP over the past 5 years.
- This has been attributable not only to the declining oil prices in recent years, but also to a conscious effort to diversify the economy away from oil dependence. The kingdom has plans to strengthen the performance of its non-oil sectors – such as the tourism sector - over the next decade.
- The constituents of GDP that most impact the real estate sector are construction, wholesale and retail trade, and professional services (including the ownership of dwellings). These sectors have seen growth at 3 percent per annum on average over the five year period, collectively contributing to 23 percent of the GDP in 2017.

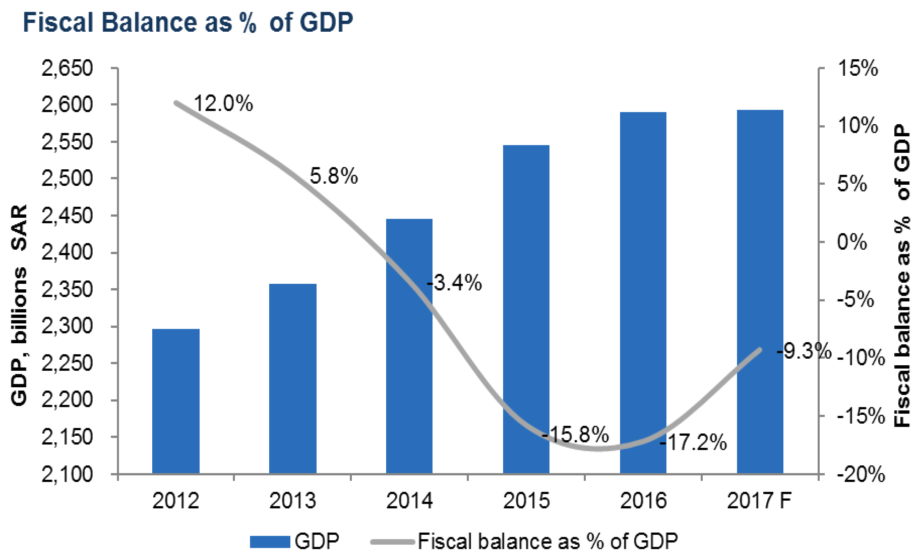
3.4 Oil and Non-Oil GDP & GDP Growth, 2011-2021



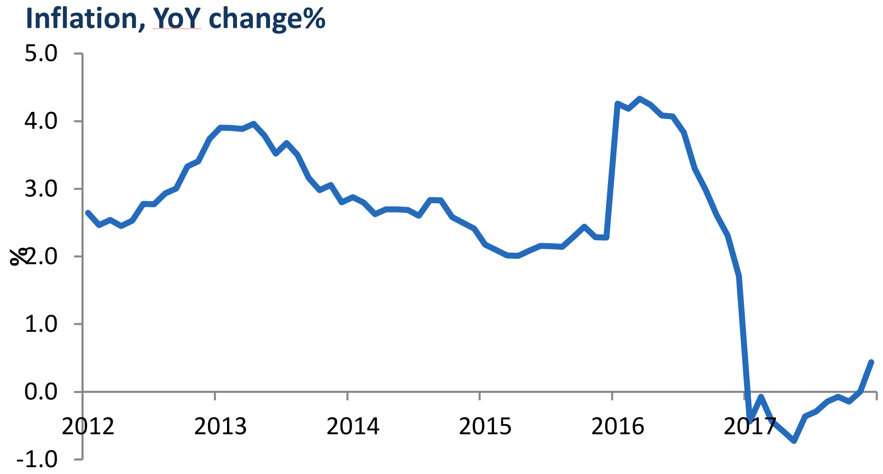
Source: GAS, IMF

- In January 2016, oil prices fell below USD 29 per barrel – the lowest level since 2003. However oil prices recovered over 2016 and 2017 and stood at an average of USD 53 per barrel in 2017 as per the OPEC basket price.
- Low oil prices have opened up large twin budget and current account deficits. The country's large savings means the adjustment is likely to be gradual and experts suggest that fears of the dollar peg being abandoned have been overdone.

3.5 Fiscal Balance as % of GDP



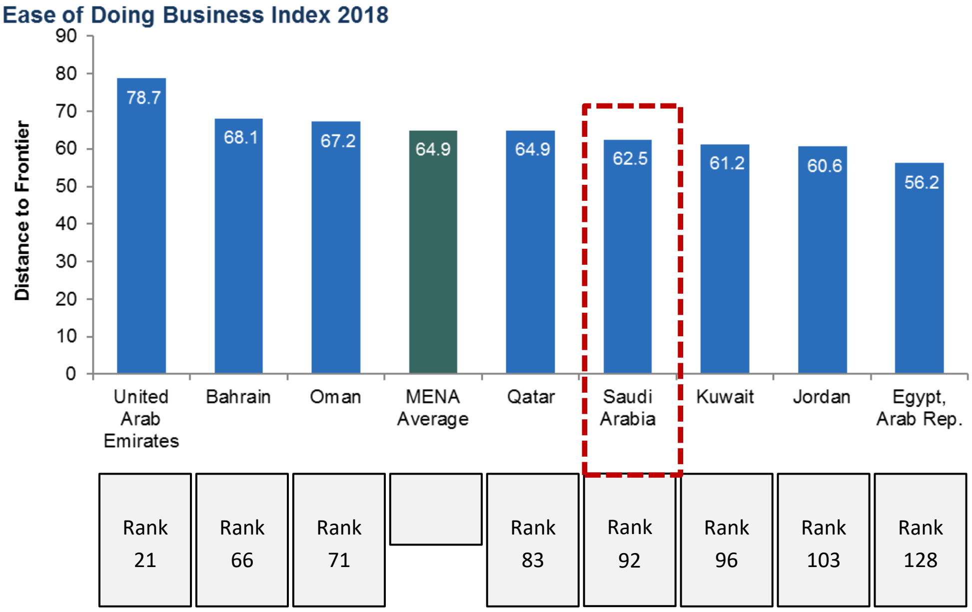
Source: IMF



Source: Macrobond

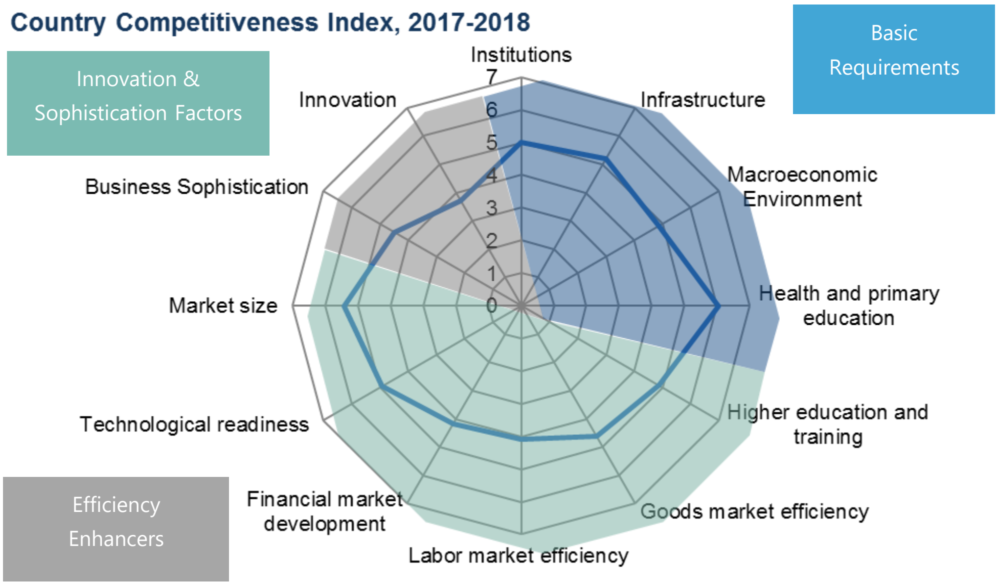
- Given the extent to which Saudi Arabia's economy is reliant on the hydrocarbon sector, the sharp fall in oil revenues, has squeezed the kingdom's budget surplus which has slipped into a deficit mode.
- The government has taken several fiscal consolidation measures to curb spending and diversify revenues in an effort to rebalance the budget and adjust to the realities of lower oil prices.
- Fiscal consolidation continued into 2017 with the introduction of the excise tax and the tax on dependants for expatriates. Coupled with an upward correction in oil prices, these measures have helped to alleviate pressures on the country's fiscal position with the deficit anticipated to have tightened to 9.3% of GDP in 2017 according to the IMF estimates.
- A weak economic environment has been weighing on inflation levels in Saudi Arabia. The inflation rate in 2017 slipped into negative territory as the continued effects of the low oil price weighed negatively on inflation levels and economic activity in the kingdom.
- Inflation rate regained some momentum starting November 2017. Inflation is expected to trend upwards due to the recently introduced excise taxes and the implementation of a VAT regime in early 2018.
- The Saudi budget announced for 2018 showed that the government has started to loosen its fiscal policy. This measure is likely to provide a stimulus to economic growth and inflation going forward.

3.6 Country Competitiveness



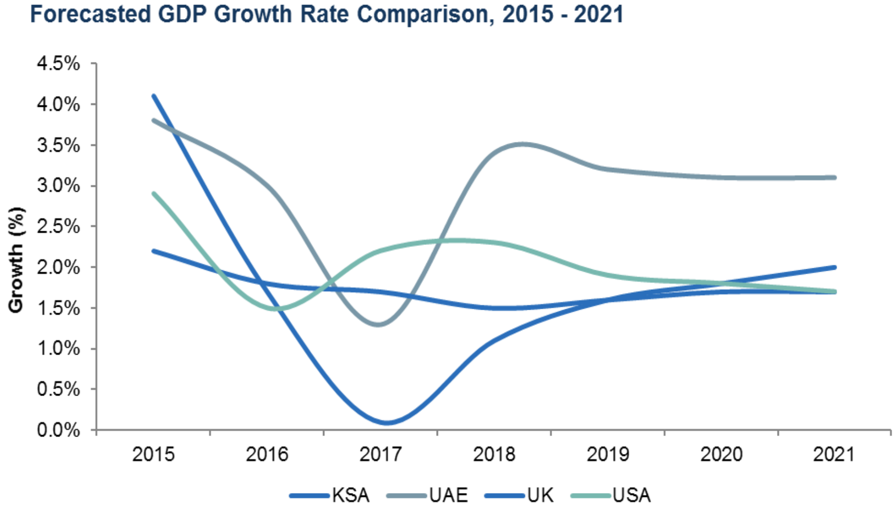
Source: World Bank Group

- In the 2018 Ease of Doing Business Survey, economies are assessed in ten different categories to determine how easy or difficult it is to open and run businesses. In the latest report, Saudi Arabia ranked 92th globally). The kingdom scored a total of 62.5 points in comparison to the 64.9 MENA average.
- Saudi Arabia performs well when it comes to issues such as “dealing with construction permits” (rank 38), “getting electricity” (rank 59) and “registering property” (rank 24).
- However, in terms of “resolving insolvency” (rank 168), “starting a business” (rank 135), Saudi Arabia still lags behind many other nations.
- Saudi Arabia’s overall ranking suggests that it is still a relatively opaque market, albeit there have been government efforts to increase transparency in order to attract greater foreign direct investment.



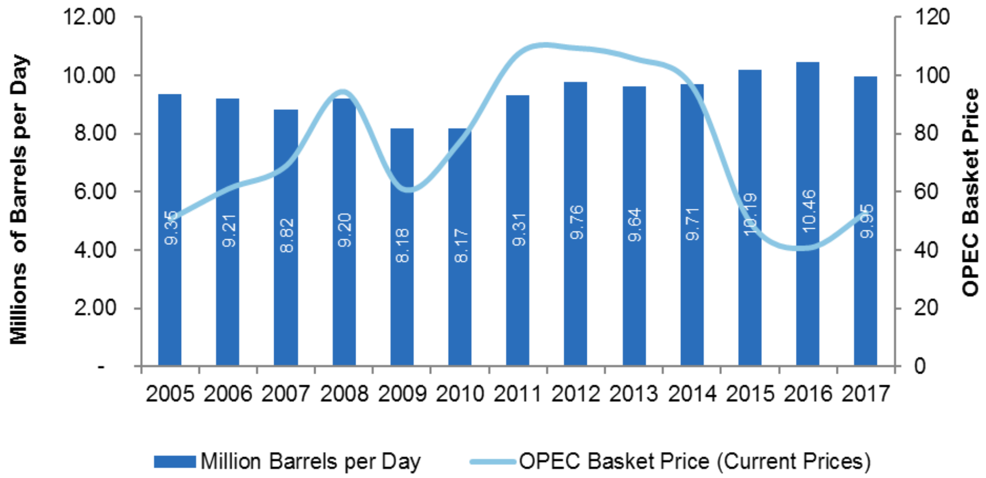
- The Global Competitiveness Report 2017-2018 ranks 137 economies in order to assess the drivers of productivity and economic development.
- The report ranked Saudi Arabia in 30th place, scoring strongly in the category of “institutions” at 26th place. The economy ranked 58th in terms of “macroeconomic environment”, an upturn from previous years.

3.7 GDP, Fiscal Budget and Oil Statistics



Source: IMF October 2017 Database

KSA Crude Oil Production and Price, 2005 – 2017*



Source: SAMA, OPEC, Macrobond

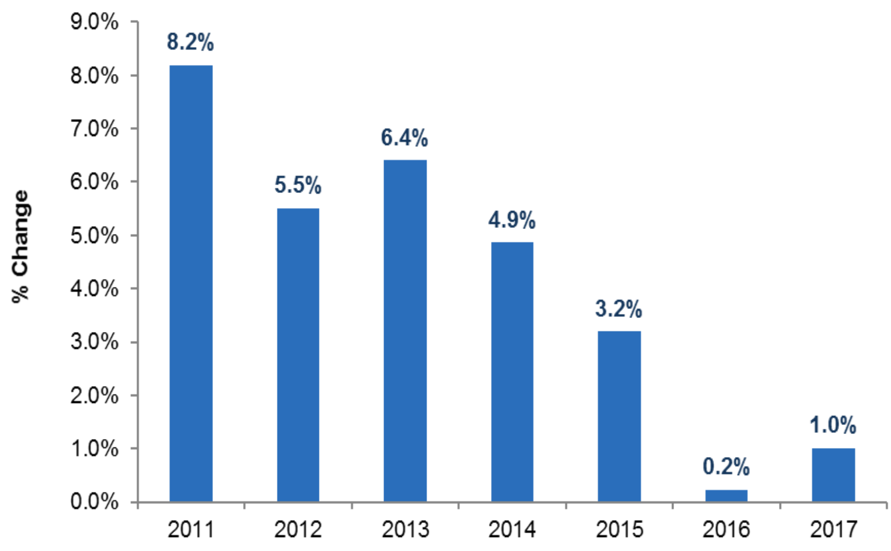
* 2017 average daily oil production excluding December

- GDP growth in Saudi Arabia has averaged 2.4 percent per annum between 2013 and 2017. This compares with an average of 3.2% for the UAE and is higher than the average for developed economies such as the US and the UK, which posted average growth of 2.1 percent over the same period.
- Saudi Arabia aims to diversify the economy from its dependence on oil, create more jobs and spread wealth to different regions. A key pillar of government plans is the development of the "economic cities", initiated with around USD 70-billion of seed investment.
- For example the development of King Abdullah Economic City, which cost is estimated at USD 86 billion, is a key part of this diversification drive toward making Saudi Arabia a knowledge based economy rather than an extractive economy reliant on hydrocarbons.
- Nevertheless, the forecasted GDP growth between 2017 and 2021 stands at an average of 1.3 percent, lower than the UAE's 2.8 percent annual average forecast and the US's 2.0 percent annual average forecast, and only marginally lower than the UK 1.6% anticipated growth.
- In the 2017 budget, as in years prior, education, health & social affairs were given priority, with combined allocation for these sectors equivalent to nearly 40% of total national spending.
- The kingdom's total oil production stood at 10.46m barrels per day in 2016 – a figure which has decreased to 9.95m in 2017 in line with Saudi Arabia's commitment to the OPED-led supply reduction pact.

- OPEC's Basket Price fell from its peak of USD 109.45 in 2012, to its lowest point in a decade in 2016 at USD 40.76. It rebounded to an average of USD 52.92 in 2017.
- While the drop in prices has reduced government revenues, Saudi Arabia has favoured adjusting production in 2017 in line with supply management by OPEC.

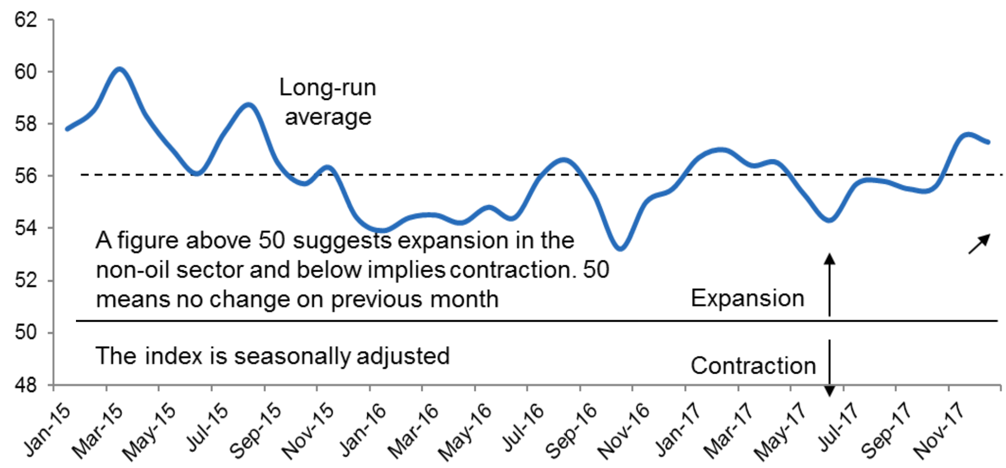
3.8 Non-Oil Sector Performance

KSA Non Oil Sector Growth 2011-2017



Source: GAS

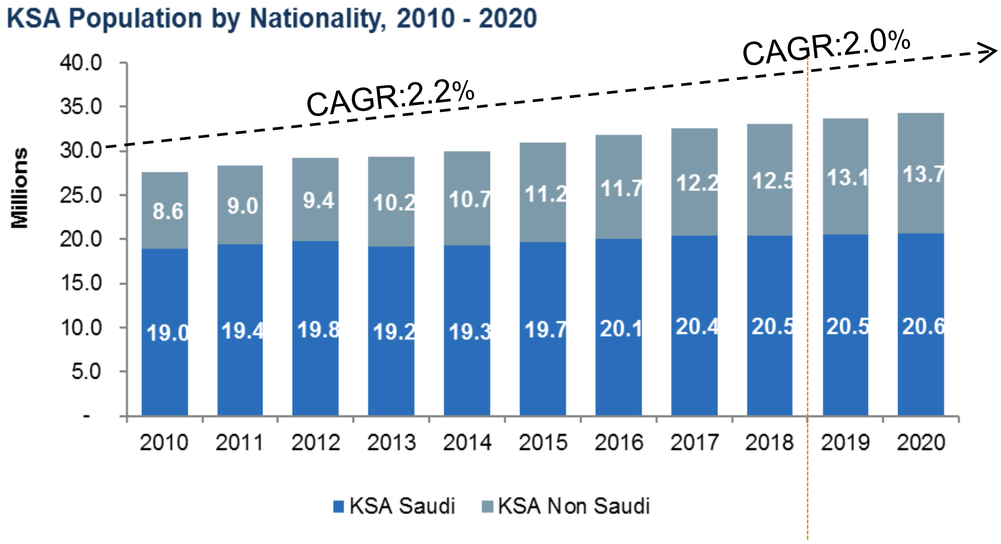
KSA Emirates NBD Purchasing Managers' Index, Jan 2015 – Dec 2017



Source: Emirates NBD

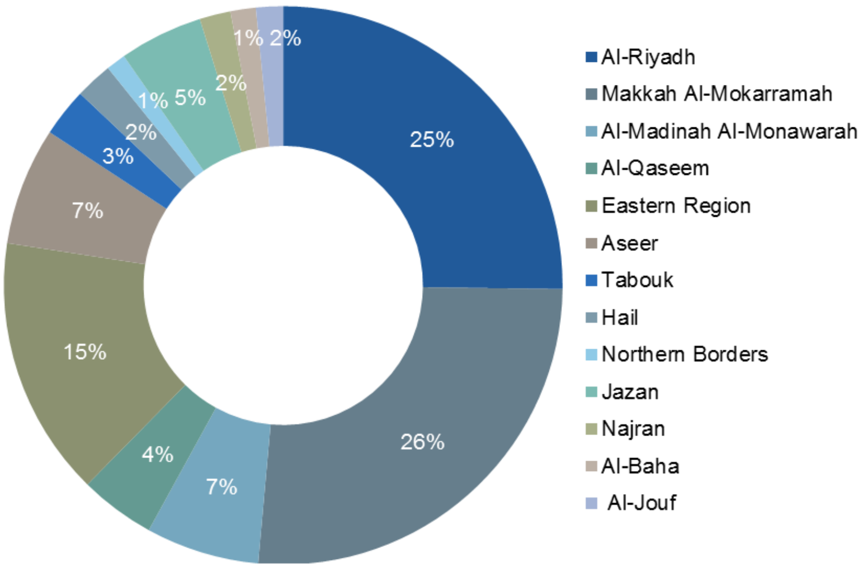
- In 2016, growth in the non-oil sector is estimated to have slowed to 0.2 percent from 3.2 percent a year earlier. The figure has rebounded to 1% in 2017.
- In 2017, the government has been gradually relaxing some austerity measures that were introduced in 2016 and which have drastically affected the public sector, particularly when considering the fact that two thirds of the Saudi workforce operate within this sector. This has included the reestablishment of all allowances, bonuses and financial benefits for civil servants and military personnel that have been previously cancelled or amended.
- Emirates NBD's Saudi Arabia Purchasing Managers' Index (PMI), which covers the entire non-oil private sector, fell to its lowest level at 53.2 in October 2016. With the value remaining consistently above the 50 level (no change mark) this suggests that there has been continued growth in the non-oil sector.
- In late 2017, the PMI has surpassed the long-run average of 56, registering two strong consecutive readings (57.5 in November 2017 and 57.3 in December 2017). This indicates an improvement in the performance of non-oil sectors.
- The PMI data provides evidence about the linkages between the nation's oil and non-oil economies. The PMI registered one of its lowest reading in January 2016 (53.9) when oil prices plunged to a decade low.
- While in the short term, growth in the non-oil sector is largely dependent on oil revenues and although austerity measures will not prove to be popular, they do show that the necessary steps are being taken in KSA for diversification.

3.9 Population and Demographics



Source: SAMA, IMF

KSA Population Segmentation by Province, 2017

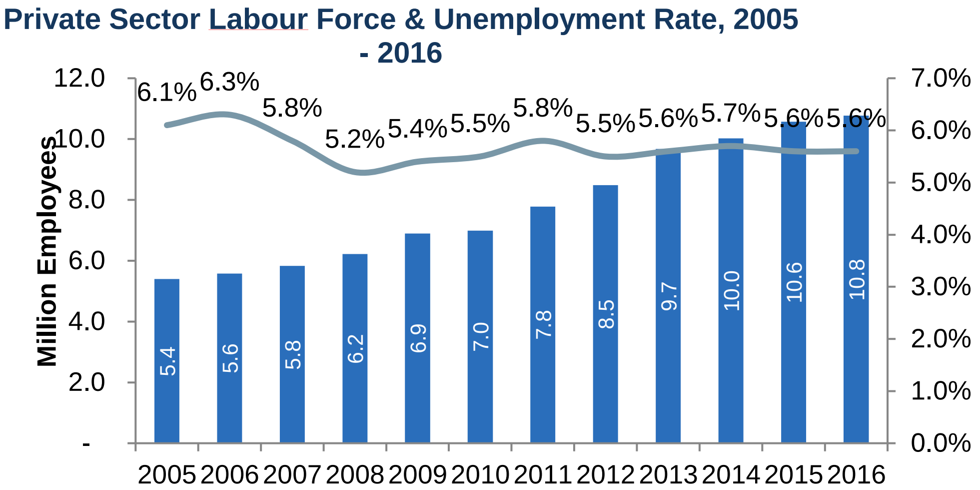


Source: GAS

- Saudi Arabia accounts for over 50% of the total population of the GCC, or roughly five times more populous than any other GCC country. According to official figures, the population stood at 32.6 million in 2017 – a figure which is projected to grow to approximately 34.4 million by 2020.
- In contrast to the majority of the GCC, Saudi Arabia is dominated by Saudi nationals, who account for 63 percent of the population. Hence, this implies that aggregate demand for products and services does not primarily stem from the expatriate workforce.
- Despite the large weighting of Saudi nationals to expatriates, there are still a large number of resident foreign workers in the kingdom. Recognising this, the authorities announced the development of a Saudi green card, which would be available to foreign investors and highly qualified expatriates. Though not yet implemented, the green card would enable foreigners to have residency in the kingdom, much like the current system in the United States, which would have positive implications for residential demand.
- The green card system would not only generate revenues through fees, but also reduce expatriate remittances, which would in turn stimulate the local economy.
- As shown by the population forecasts, a large and growing population will continue to drive demand for goods and services in the short to medium term.

- The population segmentation shows that over half the population of the kingdom is concentrated into two provinces, Makkah and Riyadh, with 26 percent and 25 percent of the population respectively.

3.10 Employment Trends



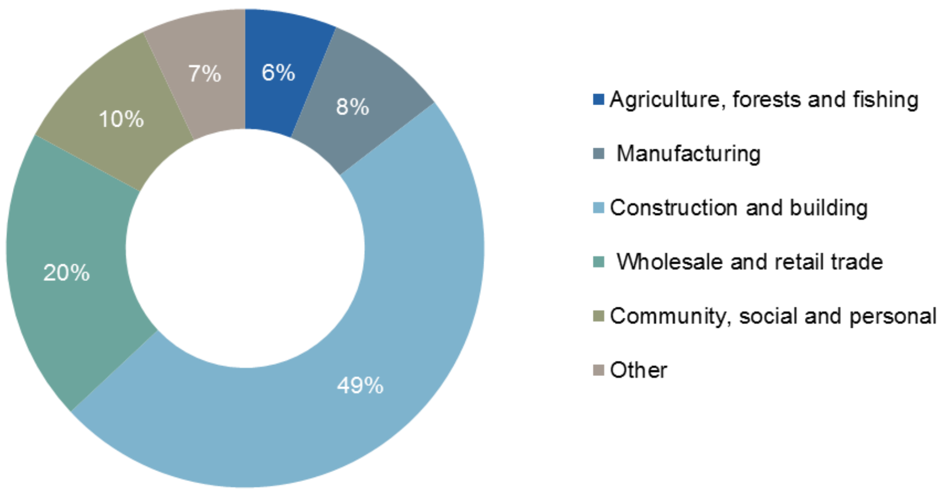
Source: SAMA, IMF

- The Saudi Arabian private sector labour force surpassed the 10 million mark in 2014, closing 2016 at 10.8 million individuals.
- The average unemployment rate for the Kingdom in 2016 stood at 5.6 percent unchanged from previous year, this is roughly in line with the average long-term unemployment rate which stands at 5.7 percent for the last 15 years.
- However these figures can be misleading; according to research by Jadwa Investment, the total Saudi national unemployment rate stood at 12.1 percent in the third quarter of 2016. This was attributable to the rise in university graduates and the cessation of some government projects as per the minister of labor and social development.
- Whilst the headline figures of Saudi national un-employment look high in relation to developed economies, the accuracy and transparency of data makes this statistic difficult to analyse.
- As set out above, a key issue for the government will be providing sustainable and rewarding jobs to the growing population. The establishment of the Economic Cities is part of this drive to create a knowledge based economy which in turn will create jobs for nationals.
- The government also engaged in labour market reforms to address job creation, namely introducing the Nitaqat program. Launched in September 2011 the campaign aims at the Saudisation of the workforce. The program combines

incentives that encourage firms to hire Saudis and sanctions for non-compliant ones.

- More recently, and stemming from the Saudi Vision 2030, the 15 year National Transformation Plan (NTP) focuses on integrating Saudi women in the labour market.

KSA Private Sector Employment by Economic Activity, 2016



Source: SAMA

- In 2016, the construction and building sector accounted for the largest proportion (49 percent) of private sector jobs in Saudi Arabia. This was followed by wholesale and retail trade (20 percent) and community, social and personal sectors (10 percent).
- The wholesale and retail trade sector accounts for a significant proportion (20 percent) of total employment in the kingdom – which points to the importance of the tertiary sector in Saudi Arabia's economy
- Males account for 86 percent of the total workforce.

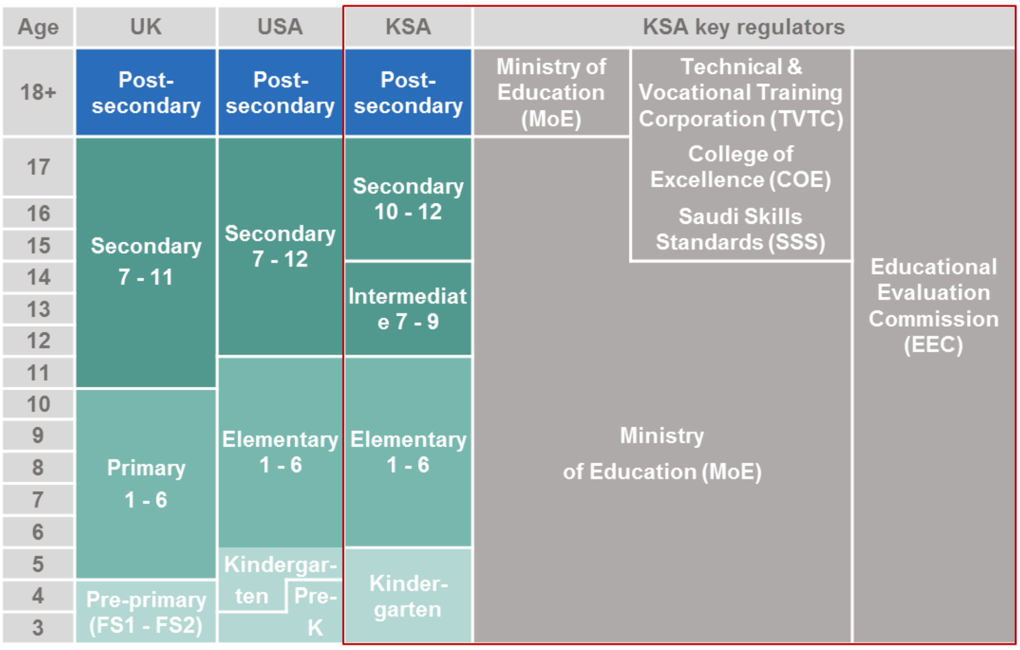
Education Market Overview

Regulatory overview

3.11 Education system in the KSA is regulated by two main authorities:

- Ministry of Education (recently merged with Ministry of Higher Education) (i) implements standards and policies for the KSA's educational system (public and private schools, colleges and universities), (ii) responsible for general education at all levels, including special education, adult education, teacher training and literacy, (iii) responsible for the supervision, coordination and follow-up of post-secondary policy and programs, supervises universities and higher education colleges, (iv) provides support and services to universities and colleges.

- Technical and Vocational Training Corporation is responsible for developing technical and vocational programs in response to national manpower requirements, coordinates and implements the Kingdom's manpower development plans and supervises all related training centers and institutes.
- The KSA's school education system can be divided into the following education cycles/grades:
  - Kindergarten – KG 1 and KG 2
  - First (elementary) stage – Grade 1 to Grade 6
  - Second (intermediate) stage – Grade 7 to Grade 9
  - Secondary – Grade 10 to Grade 12
- The chart below presents the education system and responsibilities for each regulatory authority.



Source: Knight Frank research

Growth drivers 3.12 **Student Population**

- Around one third of population in the KSA is within school going age (5 – 18 years) creating a strong platform for establishing new schools. It is estimated that this segment of population will grow faster than the total population growth, demonstrating potential for absorbing student seats supply.

Increasing awareness of education

- Increasing enrolment rates during the past years demonstrates growing awareness of people towards education. Moreover, parents in the GCC region have started to pay more attention to attributes such as type of curriculum, a school's reputation, quality of teachers, learning environment for children, the preservation of native culture, etc. before choosing the school for their children.
- Additionally, existing gap in the quality of education between public and private sector pushes parent's preferences towards private schools despite higher tuition fees.

Government Initiatives and support

- The government of the KSA places emphasis on strengthening the education sector in the country, allocating 19.6% of the Federal Budget 2018 towards education.
- Education sector is considered as one of the key milestones of Vision 2030 and National Transformation program 2020. As part of the initiatives, the KSA's government plans to increase kindergarten enrolments, improve training and development of teachers, students' marks and core skills, upgrading curriculums and teaching methods. The initiatives seek to utilize the human capital of the nation and in order to do so, significant investment is required to help boost the education sector of the KSA. While public funding is being channelled, the private sector participation is also being encouraged and facilitated - value of the private market is expected to more than double from current USD5 billion to USD12 billion in 2023.

Key challenges 3.13 **Government Regulations**

- The government policies in the KSA are non-transparent and the education market is not liberal, posing challenges for investment. During the past few years, the KSA government has introduced several regulations significantly effecting the operational dynamics of education providers:
  - Minimum wages law for Saudi teachers working in the private sector (SAR 5,000, increased this year to SAR 5,800 per month) was imposed leading to many international schools to increase their yearly tuition fees. This negatively reflected on the student enrollment rates forcing parents to transfer their children to more affordable schools
  - Existence of Saudisation policy makes it mandatory for the operators to hire Saudi nationals teachers, who often demonstrate quality issues

- Tuition fees are regulated by the government and subject to approval by the MoE based on different school parameters such as the quality of infrastructure, teachers, modern facilities, Saudisation, safety standards, etc. This could affect an operator's profitability if tuition fee increase approvals are declined by the MoE.

Workforce Demand and Supply

- The private education sector workforce in the KSA is currently facing a supply and demand imbalance – acute shortage of teaching staff, especially in the private sector where the requirement for skilled teachers is higher because of higher education standards. Average retention period for teachers is 2 – 3 years leading to increasing recruitment costs for operators.
- The new licensing requirement as well as the current hiring system (the visa/immigration requirements) are challenging, while pay scales are equally not attractive, discouraging the younger generation to become teachers.

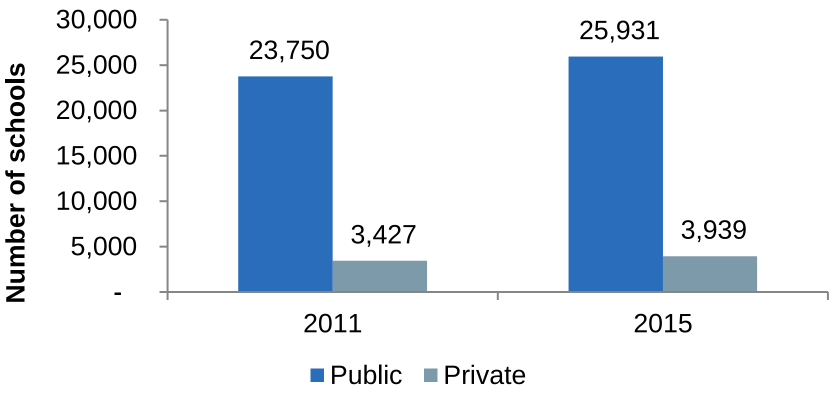
High capital expenditure requirement

- Establishing educational institutes require significant amount of monetary resources and manpower. Consequently, this restricts and hinders the opportunity to enter in to the education sector.
- Furthermore, increasing requirements established by the MoE and Civil Defence relating to schools' infrastructure, health and safety standards and prohibition to operate in rented or not purposely built school premises considerably reiterate the issue of heavy front ended investment required for new entrants.

KSA education overview

3.14
- Overall, KSA education sector is dominated by public sector. The share of private schools in KSA was only about 13.2%. As a rule, in the KSA, all schools have to maintain separate premises for male and female students starting from Grade 1.

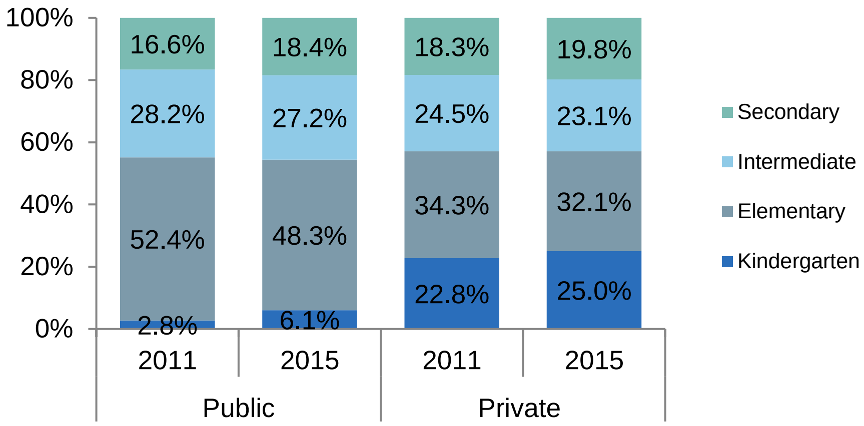
Schools by Sector, KSA - 2011 vs 2015



Source: MoE

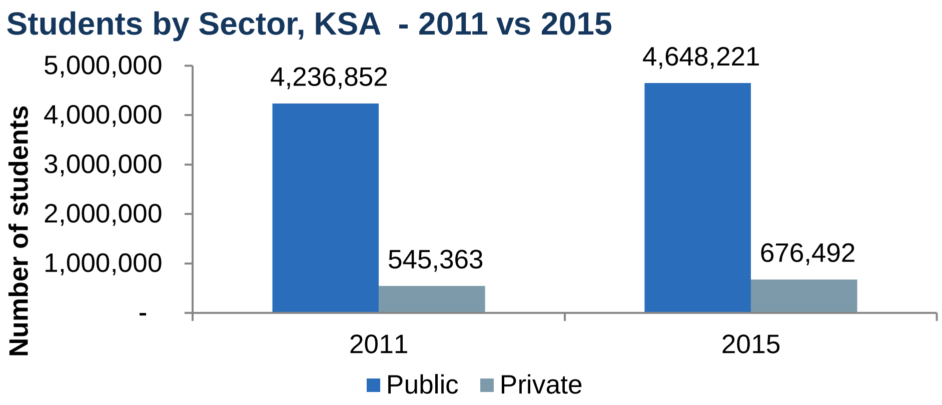
- Between 2011 and 2015, the number of schools increased by 2,693 schools, out of which 2,181 schools were added in public sector and only 512 were added in private sector.
- The chart below shows the distribution of private and public schools in KSA by education grades in 2011 and 2015.

Schools in KSA by sector and grade, 2011 vs.2015



Source: MoE

- In year 2015 private elementary and kindergarten (32.1% and 25% respectively) segment had the highest volume of students. On the other hand, in the public sector, elementary (48.3%) and intermediate (27.2%) had the highest share. This difference between sectors is explained by the fact that kindergarten does not form a part of the official education system in the KSA as children are not obliged to attend the kindergarten grade in order to be enrolled in Grade 1. However, due to government efforts, increasing income levels and awareness amongst parents of early education, the demand for pre-primary education is on the rise.
- Secondary grade offering in private schools was the smallest relative to other grades (19.8% in 2015) which could be attributed to population demographics and expatriate students travelling back to their home countries to complete their education before enrolling into higher education due to considerations of cost, quality and compatibility.
- In 2015 KSA had a total of 5,324,713 students enrolled in the school system and majority of the students (87.3%) were enrolled in the public sector.
- During 2011 – 2015 the number of private schools' students grew almost 2.4 times faster than number of students in public schools (5.5% in private sector vs. 2.3% in public sector) indicating increasing popularity of private education.



Source: MoE

Curriculum

3.15

- A breakdown of private schools by curricula is not available in the MoE statistics. However, our research suggests that 3 main curricula are most popular: American, British and Indian.
- Popularity of British and American curriculum is attributed to global standardized curriculum and examination system that ease transferability between schools and countries – a factor that is appealing to the expatriate community. Additionally, UK and US schools aim to provide students similar educational experiences in terms of quality.
- Indian curriculum schools are popular as well, this is because they serve a large Indian community present in the KSA. In addition, due to their price point and standardized examination method, these schools also appeal to other nationalities from the subcontinent.
- In general, currently the demand for international schools in the whole country is on rise due to perception of a better quality of education and ease of transferability, enhanced by the government's decision to allow Saudi children to enroll in schools offering international curriculums.

4 School Performance Analysis

Baraem Rowad Al Khaleej International Kindergarten

4.1 Baraem Rowad Al Khaleej International Kindergarten is a primary school accepting boys and girls up to Grade 3.

The property was completed in 2013 and in this span of time should be operating at optimal capacity. We understand, based on information provided by management that there are 260 students enrolled (58% occupancy) in the school for the academic year 2018/2019.

Based on the management information and a certificate from an Engineering Consultant the property has consent to accommodate 450 students and the management is of the view that the school will operate at 100% occupancy by academic year 2021/2022.

School Fees and Enrolment

4.2 Average tuition fee data was provided to us, breakdown of tuition fee by grade was not shared with us nor was it available on the school website.

In order to improve student enrolment, management reduced average tuition fee from SAR 32,600 to SAR 25,000 per annum (discount of 23%). This reduction helped increase the enrolment to 260 students in FY19 from 170 Students in FY17.

4.3 Management is of the view that they will be able to revert to FY17 tuition fee levels in FY 20 and continue to improve student enrolment reaching 100% occupancy by 2021.

Expenses

4.4 The expenses follow an erratic trend during FY 19 and FY22, thereafter it is estimated that there will be no increase in expenses.

Key considerations for projections

4.5

- The school has 17 classrooms (7 on the ground floor and 10 on the first floor) that have between 12 students to 16 students enrolled.
- In terms of class rooms area, it seems that it will be difficult to fit more than 20 students per class (consideration should also be given to the tuition fee the school is currently charging compared to the facilities available to the students
- Based on our perceived capacity based on our visit, the school can only house 340 students
- Tuition fee was reduced to SAR 25,027 per annum in 2018, representing a discount of SAR 7,000 to the fee charged in 2017. This step was actioned to attract students to the school. The change does not seem to have had the desired impact, as the number of students did not dramatically change. The following points are noteworthy:
    - Prior to reducing the tuition fee the number of enrolled students were 170 (4 years in operations) representing an average of 43 new enrolments per annum. After reducing the tuition fee, the school added 90 students, representing an additional 45 students per annum.

Clearly indicating that the tuition fee decline will have to be maintained to draw students keeping in view the economic conditions

- Projections show that the tuition fee will revert to SAR 32,000 in FY19, but when we spoke to the admissions office, they are clear that the tuition fee is to remain stable for a period of 2 years. Beyond this period, they do not have visibility.
- The proposed contracted rent of the school will result in negative profits if the projections are normalised.

5 Investment Overview

5.1 There have been a higher frequency of published commercial investment transactions in the Kingdom of Saudi Arabia recently due to the publication of acquisitions on Tadawul of the assets acquired by listed REITS. Other than the REITS, the market is still rather opaque, meaning it is difficult to fully analyse reported transactions.

5.2 In terms of sentiment and market conditions, 2018 was a difficult year for the Kingdom of Saudi Arabia. The supply of high quality stock decreased and potential buyers tended to adopt a 'wait and see' approach due to worsening market conditions, and those that did have assets have chosen to consider the REIT route as a way to divest and obtain liquidity. 2018 saw the introduction and listing of a further number of REITS, albeit performance of these has not been positive to date.

We see the following key points as important factors to consider for any real estate related transaction:

- The white land tax has effectively switched the focus of many family offices and institutions into developing their land bank rather than purchasing income-generating properties. Reducing the buyer pool in the market would also effectively increase the asking yield on properties.
- Recent falls in oil prices have squeezed the finances of the KSA government, which has led to a surge in government borrowing.
- Attractive debt financing (interest only primarily for institutional/fund purchasers) is also hard to come by unless there are existing relationships and arrangements to achieve attractive financing.

5.3 We consider the prices being paid by REITS for real estate assets being sold on a sale and leaseback structures do not necessarily reflect the wider market risk related to the real estate assets themselves, rather the risk profile of the covenant that is taking the lease. We consider a premium is thus being paid for the covenant and security package that is being wrapped around any such transaction. It is therefore important to review in careful detail the security package, robustness of guarantees, post dated cheques, payment terms as well as getting comfort that the underlying cash flows from the asset can support the rent that is being put in place.

5.4 The transactions below show the educational facilities which have been acquired by REITS in the last 2 years.

Asset	REIT	Location	Yield	Date	Notes
Saudi Electronic University	Riyadh REIT	Riyadh	8.70%	2017	3 year lease
Al Faris International School	Al Rajhi	Riyadh	7.53%	2017	Schools, 4 floors including basement

Al Maarefah College	Jadwa	Riyadh	8.00%	2018	3,000 student capacity college facility
Rowd Al Jinan School	Jadwa	Riyadh	9.75%	2018	10 year lease from May 2018, break at 5th year.
Altarbiyah Al Muaharat School	Dereyah	Direyah	8.50%	2018	25 yr lease from September 2018.
Al Khalijiyah Training Center	Dereyah	Khobar	8.66%	2018	July 2018

5.5 Analysis of the above shows that schools when acquired are typically on the basis of a long lease (typically 10-30 years based on the above). The lease being offered for the subject school is 15 years.

5.6 The subject asset was to be the subject of a REIT to be launched by Al Khaleej Training and Education in 2017 with ANB Invest. The lease being offered at the time was for a term of 20 years, with the rents to be the same as now proposed. The asking yield on the assets was 7.5%. The asset has been in the market for some 2 years, although there has been no exit to date. In the interim period since the original deal was available, we consider the market has softened, more REITS have been listed and capital raising has become more challenging due to rises in SAIBOR etc.

5.7 In formulating our discount rate / exit yield we have had regard to the points in the SWOT analysis above but also to the following:

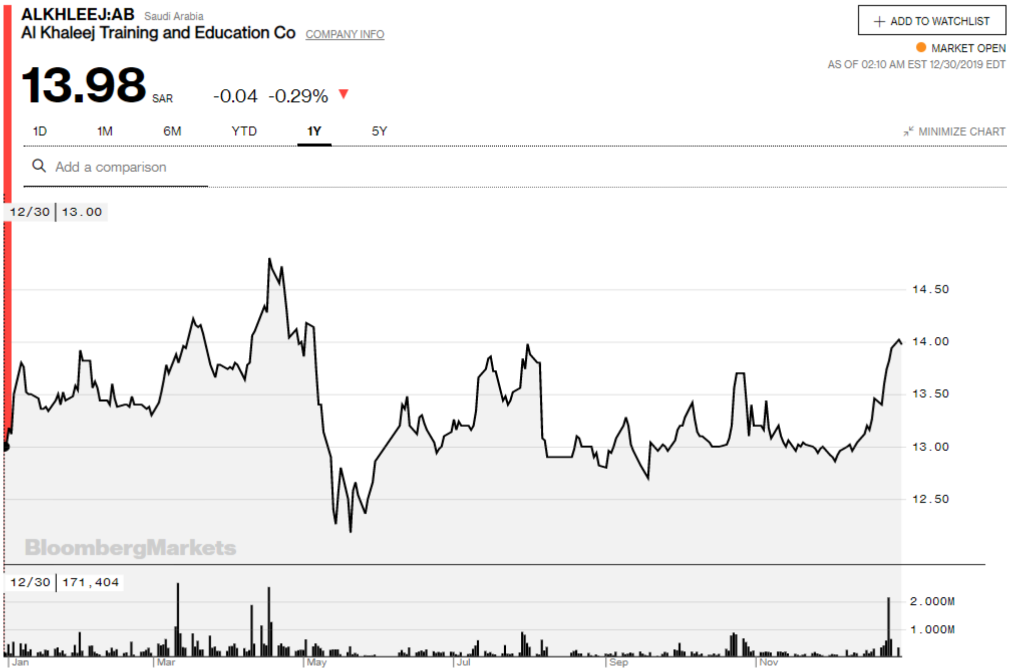
- The rental level that is to be contracted versus our opinion of affordable rent the schools are able to pay
- The historic performance and student numbers and the reasonableness of the projections going forward
- The security / guarantor package that is offered with each lease contract
- The covenant strength of the tenant (Al Khaleej Training and Education)
- Opportunities for income growth in the lease
- Location – both macro (by city) and micro (by road / frontage)

The exit yield is determined by the rate which recently traded property have sold, which is then adjusted to allow for differences between the comparable evidence and subject property.

AKTE Covenant Review

5.8 Important to understand with sale and leaseback structures, and especially for schools, where ramp up in student numbers often takes some years to optimise, is the security package / guarantees in place to support the rental income contracted. The parent / operator is Al Khaleej Training and Education, which is a company listed since 2007 on the Tadawul with a market cap of SAR 624.6 million as at the 11th March 2019. The

Price to Earnings ratio is 20.04. The Q1 2019 earnings announcement was due on 26th March 2019. The chart below shows the relative stock price over the last 12 months sourced from Bloomberg. The 52 week range in share price has been 12 to 15, therefore the shares are currently trending towards the higher end of the 52 week range.



Source: Bloomberg

On a quarterly basis, review of the Income Statement for Q3 2018 showed a Revenue of SAR 212 million, Net Income of SAR 18.2 million and a Profit Margin of 8.60%. Review of the Q3 2018 balance sheet showed Total Assets reported as SAR 1.339 billion, Total Liabilities at SAR 792 million and Debt to Assets ratio of 48.13%.

6 Valuation

Methodology

6.1 Our valuation has been undertaken using appropriate valuation methodology and our professional judgement.

6.2 Given that there is a proposed lease in place for the school, we have had regard to this. However, we have also undertaken a detailed cash flow analysis of the underlying school operations to understand if the school can reasonably afford to pay the levels of rent proposed based on the current and future performance. If the rents cannot be properly supported by the EBITDA from the operations of the school, then there will be a shortfall and this brings into question the affordability of the rent. The underlying cash flows thus need careful analysis.

Investment method

6.3 Our valuation has been carried out using the investment method via a DCF approach.

Affordable Rent Methodology

6.4 Based on historical performance analysis, operator projections of revenue and costs and profitability, we have undertaken our own analysis to verify the reasonableness of the projections. Our cash flows have had regard to performance of competing schools in the industry, reviews of capacity and ability to utilise capacity, staffing costs, etc. We have produced our own P&L which we believe, based on data provided allied to our own market data and projections provides a realistic top line revenue and EBITDA. Derivation of these then allow us to consider what could reasonably be paid away in the form of “rent”.

Lease Structure

6.5 We understand the client is talking to the vendor about a 15 year lease structure, which will have no break clauses, be triple net, and have 5 yearly rental escalations at 7.5% every 5 years. Discussions are taking place around a “rent” to be utilised for the potential transaction.

6.6 We understand the rent under discussion is approximately SAR 1,700,000 per annum.

6.7 We have then undertaken the following analysis:

- Reviewed what we consider to be an affordable rent in the context of the contracted lease rent proposed for each school
- Analysed the difference between the rent proposed and the rent we consider affordable.
- In both cases, we consider the rent proposed under the lease structure to be well in excess of what the school operations can afford.
- We have then provided two analyses:

Scenario 1

6.8 We have taken our own opinion of affordable rent for each asset and put this into the 15 year lease structure proposed, and provided a valuation of the assets on this basis.

Scenario 2	6.9	We have taken the proposed rent as per the contract under discussion with the vendor and provided a valuation of the assets on this basis. As we consider the lease rates proposed by the seller to be in excess of what we consider affordable, we have assigned different cap rates / risk premiums to the “core income” (i.e. the base rent we consider to be affordable), and the “over rented part” (i.e. what we consider to be in excess of the market, and would not be achievable if another operator was in place.)
	6.10	Additionally, as an alternative scenario we calculated market value of the school based on the management assumption of 450 student seats capacity and increase in averaged tuition fee to the level charged in FY 17 in the academic year 2019/2020.
Depreciated replacement cost method	6.11	We have also undertaken a cross check using the Depreciated Replacement Cost (DRC) method. The DRC method is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC method is used for certain types of properties which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their configuration, size, location or otherwise.

Valuation Assumptions

Affordable Rent	6.12	We consider that the rent proposed of SAR 1,700,000 per annum is unaffordable as represents approximately 26% of the forecasted revenue of the school. We consider a rent of SAR 570,000 per annum to be affordable, inferring that the proposed rent overburdens the school earnings by SAR 1,300,000 (“over rented portion”).
	6.13	Having regard to the proposed 15 year lease structure, we have considered the affordable rent part and the over rented part by assigning different risk premiums to each tranche of rental income, as the over rented part represents a greater risk to the owner, and would not be achieved on any future re-letting to another operator.
	6.14	We have applied a terminal yield of 7.75% to the affordable rent.
	6.15	A school is classified as a unique / specialised asset under IVSC and Taqeem methodology. Due to limited publically available relevant transactional information in this sector, it is challenging to draw a comparative analysis. Therefore, general market dynamics of the industry, operational performance and life cycle has to be analysed to ascertain the rent the school can pay. As can be seen in this case, the rent cover (income divided by rent) is in excess of 2.5x, therefore demonstrating that the nursery can adequately support the rent payment.

Valuation considerations

6.16
- The property was completed in 2013, with the size of its offering it should have reached optimal utilisation. The school is only operating at 58% utilisation based on the total permitted capacity details provided.

- The proposed lease rent is, in our opinion, unaffordable when considering the forecasted EBITDA of the school. Therefore, there is likely to be a shortfall which will need to be topped up by Al Khaleej. This means that the rent proposed to be put in place is "over rented" and above the market, and therefore heavy reliance will be placed on a security package to be put in place by the vendor in order to guarantee the rents, providing corporate guarantees, post dated rental cheques, etc.

SWOT Analysis

Strengths	Weaknesses
• Purposely built facility • Modern building • Good quality of facilities	• Low occupancy levels resulting in unreliable cash flows • Currently has negative EBITDA • Planned significant increase in tuition fees could cause outflow of students to more affordable schools
Opportunities	**Threats**
• Location in growing residential neighbourhood in North Riyadh. Further development in the vicinity may stimulate demand • Good links to the major highways and a relatively short travel time to Downtown which could be used to draw students from schools that are showing signs of weakness and losing students	• Increasing competition in the education sector • Overall market conditions have resulted in Saudi parents considering the public sector and some parents only enrolling their children when education is mandatory i.e. at the age of 5

Valuation bases

Market Value 6.17 Market Value is defined within RICS Valuation – Professional Standards as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Valuation date

Valuation date 6.18 The valuation date is 31st December 2019.

Market Value

Assumptions 6.19 Our valuation is necessarily based on a number of assumptions which have been drawn to your attention in our General Terms of Business, Terms of Engagement Letter and within this report.

6.20 In providing an independent opinion on the reasonableness and risks of this rent being sustainable, we have not been provided with detailed breakdowns for the operational school. We have been provide with a very high level projections of revenues and expenses. This is not in sufficient detail to allow us to comment on the reasonableness of the business projections, but does allow us to comment on the reasonableness of the rents having regard to the projected profitability of the school.

Key assumptions 6.21 Whilst we have not provided a summary of all these assumptions here, we would in particular draw your attention to the key assumptions which are particularly important / relevant :

- Buyer is to enter into a 15 year lease agreement in respect of the properties
- Rent to increase by 7.5% every 5 years
- No break clauses in the lease
- FRI lease / Triple Net Lease with tenant / operator to be responsible for all operational costs
- Operator / tenant to be responsible for all capital costs under the lease agreement

We have been provided with very high level projections of revenues and expenses, which in many cases were volatile. Explanations or breakdowns of the projected income statement were not provided to us, which did not allow as to consider the provided projections to be reasonable. In this case we modelled income statement for the school based on assumptions which are discussed below the forecasted income statement (please note alternate year forecast is presented in the table below to cover a period of 10 years)

Time line	FY 2019	FY 2021	FY 2023	FY 2025
Students	260	293	306	306
Revenue	6,637,116	7,629,110	8,126,955	8,289,494
Total Expenses	5,495,433	5,977,903	6,247,163	6,372,106
EBITDAR	1,141,683	1,651,207	1,879,792	1,917,388
EBITDAR Margin	*17%*	*22%*	*23%*	*23%*

Revenue: (student numbers x tuition fee)

- Tuition fee: it is assumed that the discounted tuition fee of SAR 25,500 will be maintained and will be indexed by inflation.

- Student ramp up: the number of new enrolments has been assumed to be 33 per year based on the average increase from the second year of operations.
- Capacity utilisation: the capacity utilisation has been restricted to 340 based on 17 classrooms and 20 students per class. In addition, the utilisation has been restricted to a schools natural utilisation of 90%.

Staff Salaries:

- All staff salaries have to increase at inflation
- Number of teachers were increased by giving consideration to student enrolment and student to teacher ratio of 15:1.

Other expenses:

- Course material cost are maintained at 5% of revenue.
- All other expenses were increased in line with inflation

Market Value

6.22 We are of the opinion that the Market Value of the freehold interest in the property, subject to the proposed lease agreement, at the valuation date is:

SAR 19,000,000

(Nineteen Million Saudi Arabian Riyals)

The composition of the value of SAR 19m can be broken down as SAR 7.3 m based on affordable rent and the remaining SAR 11.7 m representing the difference between the affordable rent and the contracted rent amount.

6.23 Our opinion of Market Value equates to a capital value of :

Riyadh : SAR 7,500 per sq m on BUA

Market Value – Special Assumption

6.24 On the request of the Client, as a "Special Assumption" the value has been calculated by giving consideration to the following assumptions by school management:

- Capacity of the school should be 450 students
- Tuition fee will revert to the level of SAR 32,000 in academic year 2019/20 representing an increase of 25%

The Market Value on the special assumptions above, as at the valuation date is:

SAR 20,300,000
(Twenty Million, Three Hundred Thousand Saudi Arabian Riyals)

The affordable rent for the school of SAR 1,400,000 per annum and the composition of the value of SAR 20.3 m can be broken down as SAR 18.7 m based on affordable rent and the remaining SAR 1.6 m representing the difference between the affordable rent and the contracted rent amount

Calculation 6.25 We attach a copy of our valuation calculation at Appendix 5 and 6.

Market / Affordable Rent

6.26 We are of the opinion the Market Rent (Affordable Rent) of the property, as at the valuation date, is:

SAR 570,000

(Five Hundred Seventy Thousand Saudi Arabian Riyals per annum).

Depreciated Replacement Cost

6.27 We have been instructed to consider the property on the basis of the Depreciated Replacement Cost (DRC) approach. We comment that the Depreciated Replacement Cost Method is not the most appropriate approach to value income producing assets such as the Property.

6.28 The approach assesses the cost of providing a modern equivalent asset and adjusting this value to reflect the depreciation of the asset as a result of physical or economic obsolescence. The price of acquiring the next best alternative land is then added to the DRC to provide an opinion of market value.

In determining the value of the land we have adopted the Market Approach.

Riyadh 6.29 **Land comparable evidence**

Our land can be seen below together with a number of plots that are for sale in the same neighbourhood.

6.30

Presented below is data from real estate brokers

6.31

Ref.	Asking	Size sq m	SAR/ sq m	Frontage	Type
1	17,850,000	5,100	3,500	One - Muqren	Commercial
2	8,925,000	2,550	3,500	One - Muqren	Commercial
3	15,000,000	3,000	5,000	One - Muqren	Commercial
4	7,562,500	1,375	5,500	Two - Othman	Commercial
5	9,900,000	1,650	6,000	Three - Othman	Commercial

Ministry of Justice data on sales provides for the following:

Area	Date	Date Gregorian	Price SAR	Size sqm	SAR/ sq m
Moghrazat	07/05/1439	23/01/2018	5,500,000	758	7,258
Moghrazat	02/06/1439	17/02/2018	1,550,000	750	2,067
Moghrazat	04/06/1439	19/02/2018	1,425,000	900	1,583
Moghrazat	10/08/1439	25/04/2018	1,665,000	900	1,850
Moghrazat	07/02/1440	17/10/2018	6,325,000	1,375	4,600

6.32 We conclude the land value based on recent and current transactions and asking prices to be SAR 3,500 – 4,000 per sq m. Land values have fallen considerably across the Kingdom in the last 2-3 yrs following the white land tax, VAT, Saudisation etc. We have adopted SAR 2,700 per sq m in our analysis.

Estimated Replacement Cost

We have analysed market construction benchmarks in KSA to derive at our estimated replacement cost for the Property if it were to be constructed at the valuation date. The applied rate has regard to the construction of a school with fixed fit out. The applied rate equals to SAR 3,500 per sq m of the built up area and SAR 2,850 per sq m for the basement.

Depreciation

We understand that the school building was completed in year 2013 and the useful life of the building is estimated in the region of approximately 30 years. Therefore, at the date of valuation the Property is approximately 6 years old. Based on the above, we have allowed for a depreciation factor of 20%.

The depreciated replacement cost of the building excluding the land is therefore SAR 7,137,200

Summary of DRC Approach

The table below summarises our assessment of the Depreciated Replacement Cost Approach for the Property:

Description	Depreciated Replacement Cost (SAR)
DRC of the building	7,137,200
Land	4,941,000
Total, say	**12,000,000**

We are of the opinion that the Depreciated Replacement Cost of the Riyadh School subject to the assumptions and caveats detailed herein, as at the valuation date is:

SAR 12,000,000 (Twelve Million Saudi Arabian Riyals)

We would comment that this approach has no regard whatsoever to the cash flows generated from the building, the covenant strength of the occupier, the security of income and does not reflect the current market conditions or investor sentiment. We therefore advise that less reliance is placed on this valuation approach

7 Signature

Reviewed (but not undertaken by):

Stephen Flanagan, MRICS

RICS Registered Valuer

Taqeem No. 1220001318

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Saud Sulaymani

Taqeem No. 1210001100

Partner

For and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Knight Frank

Appendix 1 - Instruction documentation

TERMS OF ENGAGEMENT

Knight Frank

Client:	Al Rahji Capital
Contact person:	Avinash Ragoowansi
Contact email:	RagoowansiA@alrajhi-capital.com

1	*Our Client and any other intended users*	Al Rahji Capital
2	*Purpose of valuation*	Acquisition
3	*Asset or Liability to be valued*	Sahafa Nursery / Kindergarten, Al Sahafa, Riyadh, KSA operated by AKTE
4	*Interest to be valued*	Freehold
5	*Type of Asset or Liability & use*	School
6	*Delivery of draft report*	7 working days
7	*Basis of valuation*	Market Value in accordance with the RICS Valuation - Professional Standards 2017 – including the International Valuation Standards
8	*Valuation Date*	As at the date of inspection or otherwise stated
9	*Conflicts of Interest*	We have no current fee earning involvement with the properties
10	*Status of Valuer*	External Valuers
11	*Valuer and Competence Disclosure*	The Valuers with responsibility for this report will include Stephen Flanagan, MRICS, Saud Sulaymani and Alexandros Arvalis, MRICS. We confirm that the Valuers meet the requirements of the RICS Valuation Standards PS 2 having sufficient current knowledge of the particular market and the skills and understanding to undertake the valuation competently
12.	*Currency to be adopted*	SAR
13.	*Key assumptions, special assumptions, reservations, special instructions or departures*	To be advised
14.	*Extent of inspection and investigations*	Our General Terms of Business for Middle East Professional Assignments and Valuations sets out the scope of our on site investigation
15	*Information to be relied upon*	We will rely upon information provided to us by you (or a third party) and will assume it to be correct without further verification. We recommend reliance is not placed on our interpretation of title and lease documents and that independent legal advice is sought
16	*Fees*	Our fee for undertaking this assignment will be SAR 22,000 + VAT
17	*Payment Terms*	Initial 50% of the total fee is payable upon signing of the Terms of Engagement. Final 50% of the total fee is payable upon submission of the draft report. The final report will not be released until payment is made in full.
18	*Client review of draft report*	We will provide you with the opportunity to give any comments on the draft report before finalising the report. You will have 5 working days to provide comments once the report has been released in Draft format.
19	*Limitation of liability to Client*	We refer you to Clause 3 of our General Terms of Business for Middle East Professional Assignments and Valuations which limits our liability to you. Pursuant to Clause 3.1 we confirm that Knight Frank Spain Saudi Arabia Real Estate Valuations Company maximum aggregate liability to you under or in connection with this instruction whether in contract, tort (including negligence) or otherwise will in no circumstances exceed SAR 1,000,000
20.	*Liability to parties other than the Client*	The valuation is confidential to the Client and no responsibility is accepted to any other third party for the whole or any part of its contents.
21	*Publication*	Should you wish to make reference to the valuation in annual accounts or any other document, circular or statement or disclose it to a third party, we require to approve the form and context of such publication or disclosure.

الراجحي ريت
Al Rajhi REIT

Our Terms of Engagement for this instruction comprise our 'General Terms of Business for Middle East Professional Assignments and Valuations' which are attached, together with the specific terms contained within this sheet. Please can you sign and return this document signifying your agreement to the terms contained therein.

Signed for and on behalf of Al Rahji Capital

Date:
Name:

Signed for and on behalf of Knight Frank Spain Saudi Arabia Real Estate Valuations Company

Date: 20 March 2019
Name: Stephen Flanagan

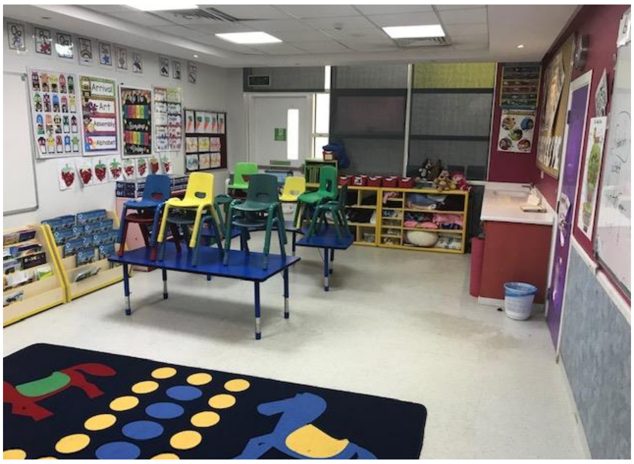
Appendix 2 - Photographs

Exterior of school:

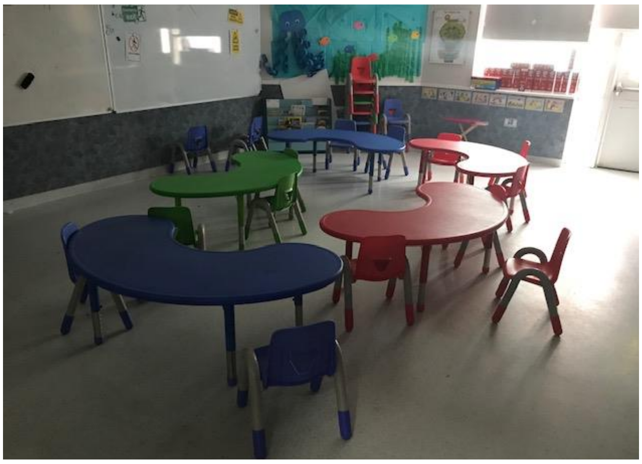
Exterior of school:

Centre of the building:

Computer lab



Class room



Class room

Class room

Class room

Appendix 3 - Title Deed - Riyadh


Page 2 o

الرقم : ٩٣٠١١١٠٠٤٩٠٥
التاريخ : ١٤ / ٤ / ١٤٣٣ هـ

كتابة العدل الأولى بالدمام

صك تملك عقار

الحمد لله وحده والصلاة والسلام على من لا نبي بعده، وبعد:
فلدي أنا ثامر بن علي عبدالله الشهري كاتب العدل بكتابة العدل الأولى بالدمام،
فإن قطعة الارض ٢٥ و قطعة الارض ٢٦ و قطعة الارض ٢٧ من المخطط رقم ٤١ / ١ الواقع في حي الزهور بمدينة الدمام .
وحدودها وأطوالها كالتالي:
شمالاً: شارع عرض ٢٠ متر بطول: (١٥٠) مائة و خمسون متر
جنوباً: قطعة رقم ٢٨ والقطعة رقم ٢٩ بطول: () يبدا من الشرق بطول ٧٥ متر ثم ينكسر الى الشمال بطول ٤٥ متر ثم يعتدل للغرب بطول ٧٥ متر
شرقاً: شارع عرض ٣٠ متر بطول: (٩٠) تسعون متر
غرباً: شارع عرض ٢٠ متر بطول: (٤٥) خمسة و اربعون متر
ومساحتها : (١٠٠٩٩) عشرة الآف و تسعة و تسعون متر مربعاً فقط بناء على خطاب الامانة رقم ٢٣٩٣ / ٢٤٢٣ / س/ض في ٢٤ / ٤ / ١٤٢٦ هـ والمقيد برقم ٢٠٩٨ فى ٢٤ / ٤ / ١٤٢٦هـ
المرهونة بالصك الصادر من هذه الإدارة برقم ٤٣٠١٠٦٠١١٩٥٩ في ٩ / ١١/ ١٤٣٠ هـ أصبحت مملوكة لـ/ شركة الخليج للتدريب في السعوديةبموجب سجل تجاري رقم ١٠١٠١٠٣٣٦٧ في ٣٠ / ٥/ ١٤١٣ هـ خالية من الرهن .
وعليه جرى التصديق تحريراً في ١٤ / ٤/ ١٤٣٣ هـ وصلى الله على نبينا محمد وآله وصحبه وسلم.

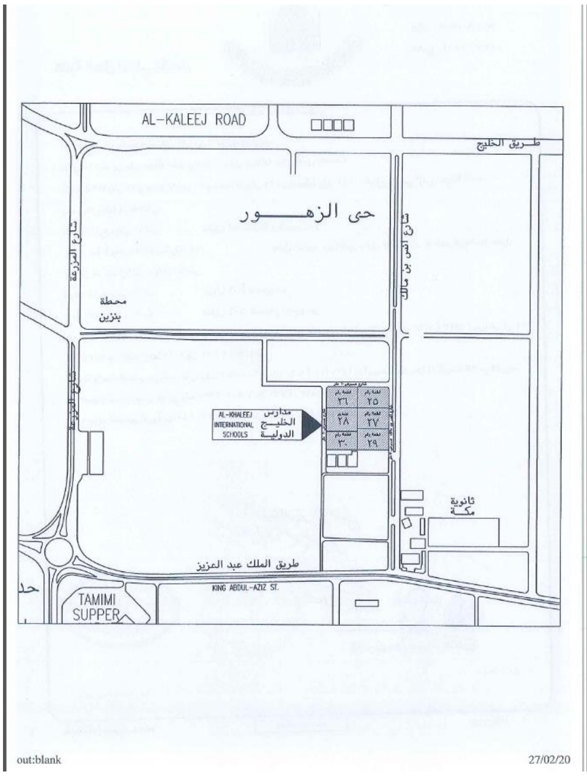
استلمت الاصل
م/عاصم لسواني
٢٠١٢/٤/٢٩

كاتب العدل
ثامر بن علي عبدالله الشهري

وزارة العدل
كتابة العدل الأولى بالدمام

صفحة ١ من ١

نموذج رقم ٠٢٤ - ٠٢ - ١
لا يغلف هذا الصك
مصلحة مطابع الحكومة - ٢٩١٩١٤



Appendix 4 - Valuation calculation

Time line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Average Fee	25,527	26,038	26,559	27,090	27,632	28,184	28,748	29,323
Students	260	293	306	306	306	306	306	306
Revenue	**6,637,116**	**7,629,110**	**8,126,955**	**8,289,494**	**8,455,284**	**8,624,390**	**8,796,877**	**8,972,815**
Staff Cost								
Managerial cost	805,637	821,750	838,185	854,949	872,048	889,489	907,278	925,424
Teacher cost	2,545,920	2,926,437	3,117,405	3,179,753	3,243,348	3,308,215	3,374,379	3,441,867
Admin /Non academic	311,170	317,394	323,742	330,216	336,821	343,557	350,428	357,437
Part time staff	122,400	124,848	127,345	129,892	132,490	135,139	137,842	140,599
Total staff costs	**3,785,128**	**4,190,429**	**4,406,676**	**4,494,810**	**4,584,706**	**4,676,400**	**4,769,928**	**4,865,327**
Gross profit	**2,851,989**	**3,438,681**	**3,720,279**	**3,794,684**	**3,870,578**	**3,947,990**	**4,026,949**	**4,107,488**
G&A expenses								
Course material	331,856	381,455	406,348	414,475	422,764	431,219	439,844	448,641
Other administrative expenses	1,378,450	1,406,019	1,434,139	1,462,822	1,492,078	1,521,920	1,552,358	1,583,405
Total G&A expenses	**1,710,305**	**1,787,474**	**1,840,487**	**1,877,296**	**1,914,842**	**1,953,139**	**1,992,202**	**2,032,046**
EBITDAR	**1,141,683**	**1,651,207**	**1,879,792**	**1,917,388**	**1,955,736**	**1,994,850**	**2,034,747**	**2,075,442**
% of revenue	17%	22%	23%	23%	23%	23%	23%	23%

Appendix 5 - Valuation calculation – Alternative scenario

Time line	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Average Fee	25,542	32,000	33,000	33,000	34,000	34,000	34,000	34,000
Students	260	293	326	359	392	405	405	405
Revenue	**6,640,833**	**9,376,000**	**10,758,000**	**11,847,000**	**13,328,000**	**13,770,000**	**13,770,000**	**13,770,000**
Staff Cost								
Managerial cost	805,637	821,750	838,185	854,949	872,048	889,489	907,278	925,424
Teacher cost	2,545,920	2,926,437	3,321,157	3,730,494	4,154,877	4,378,519	4,466,090	4,555,412
Admin /Non academic	311,170	317,394	323,742	330,216	336,821	343,557	350,428	357,437
Part time staff	122,400	124,848	127,345	129,892	132,490	135,139	137,842	140,599
Total staff costs	**3,785,128**	**4,190,429**	**4,406,676**	**4,494,810**	**4,584,706**	**4,676,400**	**4,769,928**	**4,865,327**
Gross profit	**2,855,706**	**5,185,571**	**6,351,324**	**7,352,190**	**8,743,294**	**9,093,600**	**9,000,072**	**8,904,673**
G&A expenses								
Course material	332,042	468,800	537,900	592,350	666,400	688,500	688,500	688,500
Other administrative expenses	1,378,450	1,406,019	1,434,139	1,462,822	1,492,078	1,521,920	1,552,358	1,583,405
Total G&A expenses	**1,710,491**	**1,874,819**	**1,972,039**	**2,055,172**	**2,158,478**	**2,210,420**	**2,240,858**	**2,271,905**
EBITDAR	**2,074,636**	**2,315,610**	**2,434,637**	**2,439,638**	**2,426,228**	**2,465,980**	**2,529,070**	**2,593,421**
% of revenue	17%	35%	39%	40%	43%	42%	41%	40%

Appendix 6 - Taqeem Licenses

Stephen Flanagan, MRICS
Partner - Head of Valuation & Advisory, MENA

Saud Sulaymani
Partner, KSA

Knight Frank

VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

وزارة التجـارة والاستثمـار
Ministry of Commerce and Investment

شهادة تسجيل شركة مهنية مختلطة

الرقم ٨٧٤/١٨/٣٢٣ التاريخ ١٤٤٠/٧/٣هـ

بناء على احكام نظام الشركات الصادر بالمرسوم الملكي رقم (م/٦) وتاريخ ١٣٨٥/٣/٢٢هـ ونظام الشركات المهنية الصادر بالمرسوم الملكي الكريم رقم (م/٤) وتاريخ ١٤١٢/٢/١٨هـ ولائحته التنفيذية الصادرة بقرار معالي وزير التجارة والصناعة رقم (٤١) وتاريخ ١٤١٣/١/٨هـ.

فقد تم تكوين شركة مهنية بين كل من السادة:

	اسم الشريك	الجنسية	رقم الترخيص	تاريخه	المهنة
-١	سعود محمد سليماني	سعودي	١٢١٠٠٠١١٠٠	١٤٣٩/٩/٢٣هـ	مقيم عقاري
-٢	شركة نايت فرانك اسبانيا اس أي يو	اسبانيا	٣٠٣٨٠	١٤٤٠/٧/٣هـ	التقييم العقاري

وذلك لمزاولة مهنة (التقييم العقاري) بالمملكة العربية السعودية،

باسم (شركة نايت فرانك سبين العربية السعودية للتقييم العقاري).

وتم تسجيل هذه الشركة بسجل الشركات المهنية بالإدارة العامة للشركات رقم ٨٧٤/١٨/٣٢٣ التاريخ ١٤٤٠/٧/٣هـ.

سددت رسوم التسجيل بالإيصال رقم (٠٠١٤٠٥٦٦٧٣) وتاريخ ١٤٤٠/٧/٣هـ . لمدة تنتهي في ١٤٤٥/٧/٣هـ

الختم الرسمي

وزارة التجارة والاستثمار
Ministry of Commerce and Investment
إدارة خدمات الشركات

مدير مركز خدمة العملاء بشمال الرياض

٣/٧/١٤٤٠هـ

ريان بن محمد الشفاوي

عنه/ سعد محمد القحطاني