

Qatar Real Estate Investment Company US\$270 Million Sukuk

Standard Chartered Bank (SCB) acted as joint lead manager and joint bookrunner for the US\$270 million Sukuk issue by Qatar Real Estate Investment Company (QREIC). The Sukuk were issued on the 31st August 2006.

Not only was the deal the longest tenor Sukuk (10 years) issued in the international capital markets to date, it was also the first corporate Sukuk issued out of Qatar. QREIC Sukuk, the issuer, is the first special purpose vehicle (SPV) established in the Qatar Financial Center. It represented Standard Chartered Bank's first Sukuk transaction arranged in Qatar.

QREIC is a Qatari shareholding company that was established in July 1995. The state of Qatar owns around 27% of the company through the Supreme Investment Council, and QREIC's shares are listed for trading on the Doha Stock Market.

QREIC was established for the purpose of providing housing and related support facilities to support the various social needs of different industrial areas of Qatar. Its mission is to continue to maintain its position as a leading residential property development company in Qatar and conduct business in compliance with Shariah principles.

The purpose of the Sukuk issue was to finance the construction of two housing complexes to be located in Dukhan and Mesaieed in Qatar (Musharakah assets), which were being built by QREIC to be on-leased to Qatar Petroleum (QP) on a Build, Operate, Transfer (BOT) basis. The Sukuk issue was structured on the basis of Musharakah (Shirkat-ul-Milk) and the purpose of the Musharakah was to jointly own and construct the Musharakah assets.

The Sukuk issue had a tenor of 10 years based on a 2 + 8 year amortizing structure. An SPV (Qatar Sukuk) was formed for the Sukuk issue in Qatar Financial Center. The SPV and obligor entered into a Musharakah agreement as partners where each Musharakah partner had an undivided ownership of the Musharakah assets. The SPV issued Sukuk certificates to finance its portion in the Musharakah, whereas the obligor (QREIC) contributed its portion in kind. The Sukuk certificates were issued in four tranches to allow staggered drawdown of funds, as per the Musharakah assets' construction requirements.

Pursuant to a management agreement, the SPV appointed the obligor as the managing partner to maintain the Musharakah assets, etc on behalf of the Musharakah. Also, the Musharakah partners appointed the obligor as the procurer/contractor to construct the Musharakah assets. The procurement agreement (Istisnah) set out the terms on which the assets were to be constructed and included provisions to ensure that the assets were constructed on time and on budget.

The SPV and the obligor also entered into a forward lease agreement through which the SPV, upon delivery of assets, agreed to lease its share of the assets to the obligor for the Sukuk tenor. During the construction period, return to the Sukuk holders was made through advance rentals by QREIC (lessee) to the SPV (lessor). The SPV (issuer) then distributed the advance rentals to the Sukuk holders. After the completion of the construction period and once the lease had commenced, return to the Sukuk holders was made from the lease rentals received by the lessor from the lessee.

Once constructed, the Musharakah assets were leased to Qatar Petroleum to service QREIC's lease payments under the QREIC lease.

QREIC, in its capacity as a lessee and as Musharakah partner, had separately given irrevocable unilateral undertakings (purchase undertakings) to the issuer to purchase all of the Musharakah assets/units either at the end of the lease term or on the occurrence of an event of default.

As primary security, QREIC had assigned all its rights under the QP lease and construction agreements to the security agent (on behalf of the SPV). The Sukuk issue was also secured through the assignment by QREIC of all payments to be made in respect of the performance bonds and at the same time, QREIC had ensured that at all times there was assignment of insurance not less than 120% of the outstanding in respect of the certificates.

The structure and documentation of the Sukuk issue was approved by Standard Chartered Bank's Shariah Supervisory Committee, which includes the two well-known scholars, Sheikh Nizam Yaqubi and Dr Abu Sattar Abu Guddah. The Sukuk issue was also approved by the Shariah Fatwa and Control Authority of Qatar National Bank Al Islami and the Shariah Supervision Board of Dubai Islamic Bank.

Roadshows for the QREIC Sukuk issue were held in Bahrain, Doha (Qatar) and Dubai (UAE) which were largely attended by various banks, financial institutions, mutual funds, investment companies, etc. The first funding of US\$100 million generated a highly successful order book, with total firm orders of US\$421 million (4.21 times oversubscribed). The total order book reflected 59% of orders from non-Islamic institutions and although the issue was unrated and included a 10-year tenor, the order book included investors from both Europe and Asia. The allocations reflected 90% banks and 10% non-banks (non-banking financial institutions, insurance firms and pension funds).



The authors are from Standard Chartered.

TERMSHEET

QREIC Sukuk

INSTRUMENT	Sukuk Musharakah
ISSUER	QREIC Sukuk, a special purpose company incorporated in the Qatar Financial Center (QFC).
OBLIGOR	Qatar Real Estate Investment Company (QREIC)
PRINCIPAL ACTIVITIES	To meet the long-term housing needs of Government entities, mainly Qatar Petroleum (QP) and QP affiliates, and developing real estate projects within housing areas of the industrial belts in Qatar.
BOARD OF DIRECTORS	Chairman and managing director - Khalid Bin Khalifa Bin Jassim Al-Thani Vice-chairman - Saud Bin Nasser Bin Jassim Al-Thani Mohammed Abdulattif Al Menah Mohammed Ali Al Kubaisi Mohammed Ismail Mandani Professor D. Abdulaziz Abdulrahman Kamal Abdullah Bin Ahmed Al Suwaidi
DATE OF LISTING	31 st August 2006
ISSUE SIZE	US\$270 million
DATE OF ISSUE	First funding date – 31 st August 2006 Second funding date – 30 th November 2006 Third funding date – 28 th February 2007 Fourth funding date – 31 st May 2007
MATURITY	August 2016
COUPON	US\$ LIBOR + 120 basis points
AUTHORIZED PAID UP CAP	The authorized share capital of the issuer is US\$50,000 ordinary shares of US\$1 each, 250 of which have been issued. All of the issued shares are fully-paid and are held by Maples Finance Limited (in its capacity as share trustee) under the terms of a trust for charitable purposes.
PAYMENT SCHEDULE	In 32 equal quarterly installments after a grace period of 2 years from the first funding date.
AUTHORIZED PAID-UP CAP OF QREIC SUKUK (SPV)	US\$1,000
IDENTIFIED ASSETS	All of the capital of the Musharakah, including all assets acquired after, from or through the application of the Sukuk proceeds (Musharakah assets).
MANDATED LEAD ARRANGER	Qatar National Bank and Qatar National Bank Al Islami.
JOINT LEAD MANAGERS AND BOOKRUNNERS	Dubai Islamic Bank, Gulf International Bank, Standard Chartered Bank (SCB) and Qatar National Bank.
LEGAL COUNSEL	Clifford Chance (for English law) and the Law Office of Ahmed Abdel Latif Al Mohannadi, managed by legal consultant Gebran Majdalany (for Qatari law).
UNDERWRITERS	Qatar National Bank, Dubai Islamic Bank, Gulf International Bank and Standard Chartered Bank.
SECURITY AGENT	Qatar National Bank
SHARIAH ADVISOR	Shariah Fatwa and Control Authority of Qatar National Bank Al Islami.
METHOD OF ISSUE	Reg S Issue listed on the Luxembourg Stock Exchange.
PURPOSE OF ISSUE	To finance the construction of two housing complexes to be located in Dukhan and Mesaieed in Qatar which were being built by QREIC to be on-leased to Qatar Petroleum (QP) on a BOT basis.
RATINGS	Not rated
DIVIDEND PER UNIT	N/A