



December 1, 2007

### **Commercial Real Estate – What is the excitement about?**

In today's economic climate, investors look for stable, income-generating investments. Increasingly investors are choosing Commercial Real Estate (CRE) as that investment. When we created our Shari'ah Compliant Commercial Real Estate financing program we didn't anticipate the level of interest in the market. I've been contacted by both new and experienced investors who are looking for financing for multi-family, retail, office, or warehouse properties across the country.

### **What is Commercial Real Estate?**

Loosely speaking, the term Commercial Real Estate (or CRE) covers properties that are leased out to tenants to generate a monthly cash flow. These properties can provide a workspace in the case of office or retail properties and can also provide a living space in the case of multi-family properties (usually defined as a property with five or more units/apartments). Commercial real estate broadly includes office buildings, strip malls, retail shops, multi-family properties, warehouse/distribution, and motels/hotels.

Depending on the size of the property, owners can decide to either self manage the investment or can hire a property management company which usually charges a fixed percentage of the gross rental income of the property as its management fee. These companies can take responsibility for day-to-day maintenance, collecting rents, and for bringing in new tenants to fill up vacant space. Investors should always discuss terms with management companies to see if there are alternative payment mechanisms as well.

We're seeing transactions of all sizes in this market. Experienced investors who already own CRE properties are taking advantage of Shari'ah compliant financing to cash out of fully owned investments to purchase and finance newer, larger portfolios (ranging from \$5 million to \$25 million or more). First time investors are seeing CRE as a more stable investment option to the stock market and purchasing multi-family, office, and retail properties for between \$600 thousand and \$3 million. Whether you're cashing out of existing properties or just entering the CRE market there is a property for all investors.

### **Advantages to Commercial Real Estate**

One of the biggest advantages of commercial real estate is the fact that it generates a monthly cash flow. As an investor, there are two things to keep in mind – the down payment and the day-to-day management of the property. Because these properties



generate cash flows in the form of rents every month they effectively **pay for themselves**.

Rental rates are usually calculated as price per square foot (for office and retail) or per unit (for multi-family properties). For example, the U.S. national average in 2007 for an investment grade office was around \$22 per square foot. Industrial buildings generally rent at a lower rate, but they also have lower overhead costs compared to an office property.

There is another advantage to CRE. In the case of office or retail properties one will find comparably longer lease contracts with its tenants. For example it's not unheard of that some commercial leases last for 10 years or more, and are usually at minimum one year long. This gives the commercial real estate holder a considerable amount of cash flow stability as long as the building is occupied by long-term tenants. In the case of a multi-family property the advantage is diversification. A property with five or more units will not suffer a huge fall in cash flow if one unit is vacant for a short period of time. As long as the rental market is strong it should not take too long to find a new tenant for the vacant unit.

#### Advantages of Commercial Real Estate

- ✓ Commercial Real Estate investments **pay for themselves**
- ✓ Risk is diversified among multiple tenants
- ✓ Long term leases can secure a properties cash flow for up to 10 years or more

### **Access to Commercial Real Estate Investments**

Here in the United States Islamic Finance is growing rapidly. The American Muslim market is one of the most affluent niche communities in the United States. According to research the market controls over \$104 billion in assets and has an annual financial services spend of over \$16 billion. According to a study by marketing firm JWT, cited in the New York Times, "Muslim Americans spend about \$170 billion on consumer products annually".

Demand for Islamic financial services among American Muslims is causing the industry to innovate to serve the product/investment needs of its customers. That demand caused one company to focus on offering Shari'ah compliant commercial real estate finance on a national scale. **Zayan Finance, LLC** recently launched nationally with offices in New



York, Chicago, and Southern California with an exclusive focus on Shari'ah compliant commercial real estate finance. The community has been looking for a Shari'ah compliant product to finance their commercial real estate investments and Zayan Finance has decided to fill the void in the market.

Zayan is helping investors purchase multi-family, office, retail, warehouse, and motel properties across the country. For investors looking to acquire properties they can finance the purchase. For others who already own commercial real estate the team has significant expertise in refinancing/converting conventional financings to Shari'ah compliant as well as in cashing out of fully properties to help investors use the equity in their properties to purchase larger CRE properties.

Members of the executive management team of Zayan are among the pioneers of Islamic Finance in the United States. They previously helped launch Guidance Residential which is now the leading provider of Shari'ah compliant home finance in the United States. The Zayan Finance team brings together expertise in consumer finance, commercial real estate, legal contracts, operations, marketing, and structured finance from leading financial services and commercial real estate firms including Citigroup, CBRE, Soros Private Equity, JP Morgan Chase, Gramercy Capital, and others.

### **Financing your Commercial Real Estate Investments**

Zayan Finance offers investors a flexible, competitive Shari'ah compliant finance program for Commercial Real Estate investments/refinances. We finance CRE properties ranging from \$500 thousand to \$25 million. Larger transactions can be reviewed on a case-by-case basis. The company bases its financing contract on the Musharakah Mutanaqisa (Diminishing Partnership) model. These contracts have been thoroughly reviewed by its Shari'ah Supervisory Board which consists of the leading scholars in the field of Islamic Finance who are:

- Dr. Abdul Sattar Abu Ghuddah (Saudi Arabia)
- Shaikh Esam Ishaq (Bahrain)
- Dr. Muhammad Imran Usmani (Pakistan), son of the eminent Justice Taqi Usmani

The tables below showcase the types of properties financed with a summary of the financing program.



<u>Properties Financed</u>	<u>Program Summary</u>
<ul style="list-style-type: none"><li>✓ Multi-family</li><li>✓ Medical Offices</li><li>✓ Retail (strip malls and anchored malls)</li><li>✓ Office buildings</li><li>✓ Warehouse/Distribution</li><li>✓ Limited Service Hotels</li><li>✓ Single Tenant (on a case-by-case basis)</li></ul>	<ul style="list-style-type: none"><li>• Term – 10 years with 30 year amortization</li><li>• Maximum Contract to Value Ratio<ul style="list-style-type: none"><li>Multi-family – 80%</li><li>Commercial – 75%</li></ul></li><li>• We look for fair to strong credit scores</li><li>• Our experienced team offers a consultative approach to help you through the financing process.</li></ul>

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