



Appendix CA-2

Supervisory Slotting Criteria For Diminishing Musharakah in Real Estate

Financial Strength	Strong	Good	Satisfactory	Weak
Market Conditions	The supply and demand for the business venture's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand.	The supply and demand for the business venture's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand.	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The business venture's design and capabilities may not be state of the art compared to new project/business ventures.	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The business venture is losing tenants at Ijarah/lease expiration. New Ijarah/lease terms are less favourable compared to those expiring.
Stress Analysis	The property's resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress.	The property can meet its financial obligations under a sustained period of financial stress. The property is likely to default only under severe economic conditions.	During an economic downturn, the property would suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default.	The property's financial condition is strained and is likely to default unless conditions improve in the near term.



Cash-flow predictability	Strong	Good	Satisfactory	Weak
(a) For complete and stabilised property	The property's leases are long-term with creditworthy tenants and their maturity dates are scattered. The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (such as maintenance, insurance, security, and property taxes) are predictable.	Most of the property's leases are long-term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable.	Most of the property's leases are medium rather than long-term with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue.	The property's leases are of various terms with tenants that range in creditworthiness. The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants.
b) For complete but not stabilised property	Leasing activity meets or exceeds projection. The business venture should achieve stabilisation in the near future.	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future.	Most leasing activity is within projections; however, stabilisation will not occur for some time.	Market rents do not meet expectations. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue.
c) For construction phase	The property is entirely pre-leased through the tenor of the contract or pre-sold to an investment grade tenant or buyer.	The property is entirely pre-leased or pre-sold to a creditworthy tenant or investor.	Leasing activity is within projections but the building may not be pre-leased. The bank may be the permanent investor.	The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the permanent financing.
Asset Characteristics				
Location	Property is located in highly desirable location that is convenient to services that tenants desire.	Property is located in desirable location that is convenient to services that tenants desire.	The property location lacks a competitive advantage.	The property's location, configuration, design and maintenance have contributed to the property's difficulties.
Design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties.	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties.	Property is adequate in terms of its configuration, design and maintenance.	Weaknesses exist in the property's configuration, design or maintenance.



	Strong	Good	Satisfactory	Weak
Property is under construction	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified.	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified.	Construction budget is adequate and Contractors are ordinarily qualified.	Business venture is over budget or unrealistic given its technical hazards. Contractors may be under qualified.
Strength of Musharakah partner(s)				
Financial capacity and willingness to support the property.	The partner has substantial resources and limited direct and contingent liabilities.	The partner's financial condition allows it to support the property in the event of a cash flow shortfall.	The partner is average to below average in financial resources.	The partner lacks capacity or willingness to support the property.
Reputation and track record with similar properties.	Experienced management and high partner's quality. Strong reputation and lengthy and successful record with similar properties	Appropriate management and partner's quality. The partner or management has a successful record with similar properties	Moderate management and sponsors' quality. Management or sponsor track record does not raise serious concerns	Ineffective management and substandard partners' quality. Management and partner difficulties have contributed to difficulties in managing properties in the past
Relationships with relevant real estate actors	Strong relationships with leading actors such as leasing agents	Proven relationships with leading actors such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	Poor relationships with leasing agents and/or other parties providing important real estate services

Divestment and Liquidation	Strong	Good	Satisfactory	Weak
Legal infrastructure	Legally enforceable to sell / liquidate the property	Legally enforceable to sell / liquidate the property	Legally enforceable to sell / liquidate the property	Ability to sell / liquidate the property is constrained and time consuming
Quality of the <i>Takaful</i> or insurance coverage	Appropriate	Appropriate	Appropriate	Substandard