GDL

GDL Management REIT PLC

September 2023

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GDL Management REIT

THE OPPORTUNITY

REIT domiciled in the Republic of Ireland

Cash flows derived from long-term lease income from credit tenants

Focus on acquiring long-leased assets in Irish social housing, hospitality and general commercial

Targeting 250 bps initial premium to Irish Gilt rate

Intention to list in 2024

ABOUT THE BORROWER

GDL Management REIT ("GDL") was established as a REIT in 2022 to acquire investments in Irish Republic social housing, infrastructure and commercial property to generate stable and inflation-linked income-based returns.

Its existing and planned future investments focus on real assets that are subject to a long-term inflation-linked lease(s) with a credit rated tenant, such as a government department or agency or a large corporate. Initial investments are largely in Irish social housing assets let on long leases to Local Authorities, who in turn are guaranteed through law by the Irish state.

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STRATEGY

INVESTMENT OBJECTIVES AND STRATEGY

GDL was established by the de Burca family to manage its existing and planned investments in three core asset classes:

1. IRISH SOCIAL HOUSING – single family housing and multi-family buildings let to Local Authorities.
2. IRISH SOCIAL INFRASTRUCTURE – real assets leased to Irish state or quasi-state entities.
3. COMMERCIAL PROPERTY – opportunistic acquisition of real estate leased to large international corporates with significant investments in the Irish Republic.

All three asset classes are subject to a rigorous acquisition strategy anchored by the following core due diligence tests:

1. Asset must be subject to a lease with a state entity, quasi-state entity or a large corporate on CPI-adjusted terms.
2. Tenant must be rated, or a rating can be derived from the guarantor/ultimate sponsor or owner.
3. Lease must have a minimum remaining term of 20 years.
4. Lease terms must be on a fully repairing and insuring basis with minimal running costs or capital expenditure requirement liabilities.
5. The assets being acquired must be purchased at an initial yield that is demonstrably higher than the market norm, as derived from an independent valuation.
6. The implied net initial yield (i.e. income after costs divided by the total purchase costs including professional fees) must be a minimum of 250 bps higher than the then prevailing comparable Irish gilt rate.

The core investment objective is to secure a long-term cash-on-cash yield that is at a premium to that available in the capital markets, based on comparable covenants.

FINANCING AND REIT STRUCTURE

GDL utilises its own equity, and equity from a Family Office partner based in the Middle East, in conjunction with senior secured long-term commercial mortgages from largely European banks. GDL also intends to issue short dated secured instruments to take advantage of opportunities as and when they arise. This short-dated finance can then fund initial acquisitions which can then be re-financed with longer term and lower cost senior secured debt.

Now established and beginning preparations for its listing, GDL is looking to build a relationship with pre-IPO equity providers, mezzanine providers and other sources of long-term commercial real estate debt.

Current Legislation: "Real Estate Investment Trusts (REITs) Part 25A-00-01" as issued by the Irish State Revenue in March 2023.

Under the current legislation an Irish registered REIT is not liable for Corporation Tax or Capital Gains Tax on the conditions that:

1. It limits development of assets within certain cost and value parameters.
2. It distributes no less than 85% of its annualised net rental income.
3. It maintains leverage at no more than 50% of the market value of its assets.
4. There are further conditions around the disposal of assets that could trigger a reversionary taxation effect if not properly complied with.

In order to keep compliant with the REIT regulations GDL must:

1. Have its Ordinary Shares admitted to a Recognised European Exchange within three years of having been approved as a REIT.
2. Within three years have achieved a leverage ratio of no more than 50% based on most recent audited balance sheet data.

GDL typically acquires assets through Irish domiciled Special Purpose Vehicles (SPV's). These SPV's assume the acquisition debt attributable to the assets acquired and grants security to any lending party and abides by a negative pledge over any further encumbrance of the assets.

The SPV must abide with the terms of the loan and its underlying security, which will typically entail a preferential cash sweep to the secured party/entity after GDL has met any asset management costs.

Given the multi-faceted nature of GDL's financings this SPV structure allows debt investors to maintain a direct call on the assets they have financed and removes any concerns over cross-collateralisation.

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OVERVIEW & LEASE TERMS

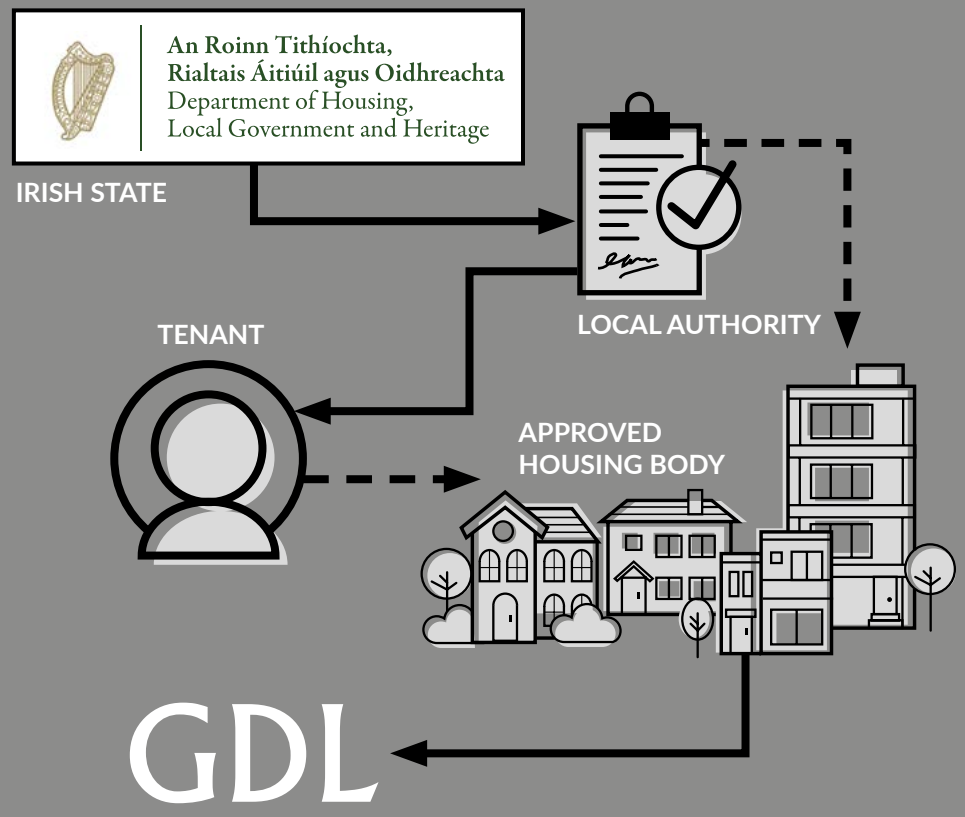
OPERATIONAL OVERVIEW AND LEASE TERMS

Given its investment strategy GDL has limited costs in its own right. As the assets acquired are subject to long-term fully, repairing and insuring terms ("FRI") GDL's costs are limited to general administrative costs with small allowances under certain leases for repairs and capital expenditure. Other than the limited direct costs, GDL levies a 3% management charge over the gross rental income it receives to pay for its own establishment and compliance costs, as well as an allowance for professional fees and audits.

The structure of an FRI lease is such that the Lessee (the tenant) must not only meet the rental payments due under the lease, but also ensure that the asset is maintained to the same standard as when they first occupied. At the end of the term the Lessor (GDL) can claim monies back against any costs to make repair or refurbish the asset, if it has not been properly maintained under the structures of the lease.

After all operational costs have been met, GDL's net operating income is then deployed to service the debt commitments of the SPV's with any balance being distributed to GDL's Ordinary Shareholders, who at all times are subordinated to the secured and unsecured debt capital.

TYPICAL LEASE STRUCTURE



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ACQUISITIONS

INITIAL AND FUTURE ACQUISITIONS

GDL has either purchased, or is in the process of purchasing, a total of 10 residential housing portfolios, comprising over 200 individual housing units. It has also agreed to purchase a prime Dublin centre hotel and the freehold interest of a new build supermarket let to Aldi.

In total these acquisitions will deploy some €129 million and represent a net initial yield of some 7% on a 3-year reversionary basis. These transactions are being funded through GDL's own equity, partnered with equity from a large Kuwaiti Family Office plus senior secured commercial real estate debt provided by a number of Irish and German banks.

Going forward GDL also intends to issue a series of higher yielding credit linked notes through Gen Two of Zurich, based around a proven channel islands structure. These notes would part fund acquisitions and then be refinanced, once stabilised, by senior longer-term debt.

As the GDL portfolios grow it intends to acquire a mixture of Social Housing and allied infrastructure let on long-term leases to government entities, as well as to continue to target specific opportunities in the Irish commercial real estate investment market.

The recent changes in the European interest rate and banking environment has created various value arbitrages which GDL intends to exploit. As per the current rules governing REITS in the Irish Republic GDL intends for its shares to be listed on a recognised exchange within the next 18-24 months.

MANAGEMENT

Principal & Director – **Kahlil de Burca**

A veteran of the UK and Ireland property markets, Kahlil manages the business affairs of the wider de Burca family's interests in real estate, horse breeding/training and general farming. Kahlil has worked in real estate finance for a number of years, having also worked for the Irish State's "Bad Bank" National Asset Management Agency ("NAMA"). Post the 2008 financial crash Kahlil helped NAMA recover loan capital and sell down assets from portfolios of Irish property loans. He also worked as member of Balfour Beaty's capital projects group helping bring forward large-scale regeneration programs.

He has been involved in social housing both in Ireland and the UK for a number for years and has helped finance social housing development as well as overseeing some €250 million of social housing asset purchases by UK institutional investors.

Investment Adviser – **David Morgan**

David is an experienced UK based corporate financier based in the UK and specialising in UK and Republic of Ireland property markets. For many years he was a founder and partner of Nathan Alexander, a boutique corporate finance advisory business based in the City of London. He is currently Head of Institutions and Capital Markets at Bancroft Property, a leading UK residential property agent and adviser.

He has completed many hundreds of €millions of property transactions encompassing everything from sales and purchases of property assets to equity and debt capital raises to re-structuring and securitisation of assets.

He advises GDL on capital raising and supports Kahlil in structuring acquisitions.

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TRANSACTIONS

TYPICAL TRANSACTION ECONOMICS

Years		0	1	2	3	4
Months		12	12	12	12	12
Cash Inflow from Operations		30/11/23	30/11/24	30/11/25	30/11/26	30/11/27
GRI IPAS Contract	6.7%	540,000	540,000	540,000	540,000	540,000
GRI SOCIAL HOUSING LEASE INCOME	5.8%	464,664	464,664	464,664	464,664	464,664
GRI HAP	13.9%	1,113,679	1,113,679	1,113,679	1,113,679	1,113,679
GRI HOSPITALITY LEASE INCOME	58.1%	4,669,992	4,669,992	4,669,992	4,669,992	4,669,992
GRI COMMERCIAL LEASE INCOME	15.5%	1,245,000	1,245,000	1,245,000	1,245,000	1,245,000
TOTAL GROSS RENTAL INCOME	100%	8,033,335	8,033,335	8,033,335	8,033,335	8,033,335
Void Factor (adjusted to subtract leased units)	5.0%	-80,333	-82,342	-84,400	-86,510	-88,673
GROSS OPERATING INCOME		7,953,002	8,151,827	8,355,623	8,564,513	8,778,626
Operational Costs						
Day to Day Maintenance	1.0%	-11,025	-11,301	-11,584	-11,873	-12,170
Service Contracts/Charges	1.0%	-11,025	-11,301	-11,584	-11,873	-12,170
Utilities & Rates	1.0%	-79,530	-81,518	-83,556	-86,645	-87,786
Land Property Tax	0.2%	-19,883	-19,887	-19,892	-19,897	-19,902
Insurances	0.7%	-56,233	-56,233	-56,233	-56,233	-56,233
Lease Management/Marketing	1.0%	-11,025	-11,301	-11,584	-11,873	-12,170
Fixtures Furnishings & Equipment Replacement	1.0%	-11,025	-11,301	-11,584	-11,873	-12,170
Cap Expenditure Contribution	1.0%	-11,137	-11,415	-11,701	-11,993	-12,293
Operational Costs	7.0%	-210,884	-214,273	-217,731	-221,276	-224,909
REIT Management Fee	3.0%	-238,590	-244,555	-250,669	-256,935	-263,359
Total Operating Costs	10.0%	-449,474	-458,827	-468,400	-478,211	-488,268
Net Operating Income Before Acquisitions & Finance		**7,503,528**	**7,693,000**	**7,887,223**	**8,086,302**	**8,290,358**

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IRISH SOCIAL HOUSING

SOCIAL HOUSING

GDL collates data from the Government's Housing Agency, which gives an overview on a range of issues effecting housing in Ireland, with a particular reference to social housing. The key indicators are around Supply, Affordability, Demand, Need and Prices. Whilst current data points to a smaller number of households requiring social housing over time, there is also a growing disparity between house price growth and earnings growth. This is also likely to keep demand stable. Latest data also points to a reduction in new housing starts, which could in turn constrain supply and lead prices to rise further having a positive effect on demand for social housing - key statistics:

People

Population of Ireland - 5,123,536 (Census 2022)

Housing Stock

2,124,590 permanent dwellings (Census 2022)

An increase of 120,945 units (6%) in the state's housing stock since 2016

- 1,858,526 units are occupied by households
- 33,177 units are temporarily absent
- 66,135 units are unoccupied holiday homes
- 166,752 units are vacant dwellings

Households

Average household size = 2.75 (Census 2022)

Local Authority Overview 2022

Number of Households Qualifying for Housing Support

Local Authority	2017	2018	2019	2020	2021	2022
Carlow County Council	651	499	519	505	457	486
Cavan County Council	705	737	608	584	414	460
Clare County Council	1,952	1,004	1,065	1,202	1,100	1,185
Cork City Council	4,373	3,118	4,639	3,953	4501	3,886
Cork County Council	4,591	3,509	2,533	2,470	2,237	2,318
Donegal County Council	903	811	926	924	856	908
Dublin City Council	19,220	16,514	16,529	14,001	12,709	11,793
Dun Laoghaire Rathdown	3,307	2,843	2,624	2,427	2,437	2,154
Fingal County Council	7,271	6,993	5,607	5,461	5,589	5,789
Galway City Council	2,219	1,728	1,551	1,233	1,263	1,394
Galway County Council	1,950	1,819	1,595	1,556	1,641	1,298
Kerry County Council	3,217	2,910	2,767	2,180	2,141	2,305
Kildare County Council	5,103	3,962	3,386	3,104	2,937	3,008
Kilkenny County Council	1,230	968	818	834	656	681
Laois County Council	1,342	1,024	806	665	590	702
Leitrim County Council	327	302	189	190	177	191
Limerick City & County Co	2,870	2,517	2,363	2,081	1,949	1,963
Longford County Council	655	542	496	502	301	272

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THE IRISH SOCIAL HOUSING MARKET

Local Authority Overview 2022

Number of Households Qualifying for Housing Support *continued*

Local Authority	2017	2018	2019	2020	2021	2022
Louth County Council	2,249	1,541	1,468	1,324	1,299	1,245
Mayo County Council	1,222	1,175	1,205	990	907	836
Meath County Council	2,453	1,966	1,715	1,703	1,589	1,716
Monaghan County Co	476	505	530	413	392	306
Offlay County Council	917	657	627	487	472	442
Roscommon County Co	538	369	323	291	241	270
Sligo County Council	611	442	501	522	517	625
South Dublin County Co	5,869	4,846	4,938	4,764	5,062	4,894
Tipperary County Council	1,277	1,201	1,266	1,259	1,121	1,090
Waterford City & Cty Co	1,444	1,117	1,094	1,267	1,229	1,340
Westmeath County Co	1,679	1,585	1,222	998	919	1,028
Wexford County Council	2,577	2,177	2,260	1,798	1,416	1,348
Wicklow County Council	2,601	2,477	2,523	2,192	2,128	1,909

Length of Time to Secure Housing 2022

Length of Time	2017	2018	2019	2020	2021	2022
Less than 6 months	7,470	6,496	7,849	6,388	5,143	7,234
Between 6 & 12 months	6,310	5,947	6,481	5,345	6,272	6,234
Between 1 & 2 years	9,647	8,821	8,943	10,215	8,663	8,868
Between 2 & 3 years	9447	7,020	6,637	7,009	7,353	6,304
Between 3 & 4 years	10,013	6,609	5,342	5,169	5,604	5,968
Between 4 & 5 years	8,749	6,953	5,013	3,981	4,050	4,359
Between 5 & 7 years	13,360	10,827	9,974	6,941	5,974	5,962
More than 7 years	20,803	19,185	18,454	16,832	16,188	12,913

House Price Growth Relative to Household Income Growth

	Index House Prices	Index Earnings
2011	100	100
2012	85.8	99.2
2013	81.6	99.7
2014	84.2	100.5
2015	92.1	101.6
2016	103.2	102.3

	Index House Prices	Index Earnings
2017	118.4	104.5
2018	130.5	107.9
2019	136.3	111.6
2020	136.8	122.4
2021	147.4	

THE IRISH COMMERCIAL PROPERTY MARKET

Extract from JLL Ireland Investment Market Report Q2 2023

Retail was the strongest performing sector in Q2 2023, representing 43.9% of the market with €146m invested. The sector is emerging as an attractive asset class due to its strong occupation and rental profile, along with enticing yields for investors. Retail parks, in particular, have garnered the attention of investors, with €125m invested in the sub-sector over the last eighteen months and an off-market retail park deal was the second largest investment in Q2 2023, with a €46m deal.

Elsewhere in the sector, the B&Q Liffey Valley retail warehouse in Dublin 22 was purchased by Inter Gestion REIM for a deal within the region of €27m that JLL acted as a joint sales agent. For investors uncertain about the prospects for strong rental growth across broader commercial real estate, quality shopping centres and retail parks offer higher returns, more flexibility and lower risk for achieving the desired outcomes. Well-connected retail assets near or within growing conurbations and with affordable or re-based rents will generate the most interest from potential buyers.

COMMERCIAL REAL ESTATE

Recent data points to a sharp decrease in commercial real estate investment in the Irish market. Higher interest rates, tighter underwriting by lenders and general sentiment is having the effect of pushing out yields and reducing the number of active players in the market.

This creates opportunities for GDL to acquire specific assets for the long-term on historically higher yields.