

RATING REPORT

Dolmen City REIT

REPORT DATE:

May 27, 2015

RATING ANALYSTS:

Sobia Maqbool, CFA
sobia@jcrvis.com.pk

Hasan Farooq Baddi

hasan.farooq@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating REIT Rating	Previous Rating
REIT Rating	RR1	N/A
Rating Date	May 26, '15	-

COMPANY INFORMATION

REIT Name: Dolmen City REIT	Shariah Advisor: Mufti Muhammad Ibrahim Essa
RMC: Arif Habib Dolmen REIT Management Limited	Scheme: Perpetual
Chairman of the Board: Mr. Nasim Baig	Listing: Karachi, Lahore & Islamabad Stock Exchanges
Chief Executive Officer: Mr. Muhammad Ejaz	Size of the Fund: Rs. 22.237b
Property Manager: Dolmen Real Estate Management (Pvt.) Limited	IPO size: Rs. 5.559b
Trustee: CDC	Valuer: NESPAK

APPLICABLE METHODOLOGY(IES)

Real Estate Investment Trusts (January 2015) (<http://www.jcrvis.com.pk/Images/RentalREITs-Mehtodology%202015.pdf>)

Dolmen City REIT

OVERVIEW OF THE FUND	RATING RATIONALE
<p>The scheme is being set up with the objective of generating rental income for unit holders. The REIT scheme may also generate gains for the unit-holders from selling the real estate or parts thereof, with prior written approval from the Securities & Exchange Commission of Pakistan (SECP). The REIT fund would be listed and traded on the Karachi, Lahore & Islamabad Stock Exchange.</p>	<p>Dolmen City REIT (DCR) is a perpetual, listed, closed-end, Shariah compliant rental REIT scheme proposed to be launched by Arif Habib Dolmen REIT Management Limited. The REIT property is located in one of the most affluent areas of Clifton, Karachi. Comprising Harbour Front (office space) and Dolmen Mall (retail mall) and ancillary parking space, the REIT property has now been in commercial use for several years and features prominent local and international brands and corporations as tenants; some of these retail brands previously did not have presence in Pakistan.</p> <p>At current levels, the Harbor Front is generating about one-third of the rental revenues whereas two-thirds are being generated by the Dolmen Mall. The mall currently has 94% occupancy and the office building is fully occupied. Tenant risk, as manifested in concentration levels, is high in case of Harbor Front, with one group alone contributing about 29% of the revenues of the total office space, while top 5 contribute 71% of the rental income. Tenant profile is more diversified in case of the mall; with top 5 clients contributing about 20% of the mall's revenues. The higher concentration level in case of Harbor Front is mitigated to an extent by the average tenure of tenancy agreements which is 7.5 years for the top 5 tenants. Average tenure of tenancy agreements is comparatively lower in case of the mall, barring the largest client, at 4.5 years, though still higher than the average tenancy length of enclosed retail in the city.</p> <p>The property has a strong competitive position, in view of which risk of material variation in occupancy levels is considered low. This competitiveness is based on the established quality of services, provision of amenities and maintenance of the office and mall space in addition to its geographic location. In this regard, the role of Dolmen Real Estate Management (Pvt.) Limited, the property manager, is considered important, which has hitherto ensured the provision of high quality property management services; continuity of this relationship is considered important. Greater competition in terms of availability of other such facilities may affect occupancy rates and return for investors over the long term, particularly if economic growth faces slowdown. However, assurance of returns over the foreseeable horizon is considered high.</p> <p>REIT fund size is proposed to be Rs. 22.237b, of which Rs. 5.559b will be raised by way of IPO. International Complex Projects Limited (ICPL) and the REIT Management Company (RMC) feature the Dolmen and Arif Habib Groups as shareholders. Both these groups are financially sound and have prior experience in the real estate sector. In compliance with clause 11 of the REIT regulations, 2015, ICPL as Strategic Investor and RMC shall hold 20% and 5% units of DCR respectively, in a blocked account with the Unit Registrar (CDC). At the time of launch of the REIT scheme, however, ICPL shall be holding 70% units.</p> <p>The REIT fund will allow investors to take exposure in the real estate sector. At 100% occupancy level for both the mall and office space, the dividend yield for unit-holders is estimated at 9.5% for the first year, and projected to increase in subsequent years, in line with the escalation in rents; most tenancy contracts have a built-in 10% rate escalation clause. Major expenses to be incurred by the fund are linked to the level of operating income of the fund; this includes the fee to be paid to the property manager and the RMC. Regular operations and maintenance expenses are to be borne by the property manager and recoverable from the tenants. Major capex will however have to be incurred by the fund itself; almost all income (other than fair value adjustment) is proposed to be distributed, in view of which cash build-up in the fund will not be meaningful.</p> <p>The return to investors would also incorporate price appreciation of the property; the extent to which this would be incorporated in the secondary market price of the fund would depend on market forces. As such the property will be evaluated by the valuer on a half yearly basis to determine the NAV of the fund; management has projected 5% appreciation in property value per annum.</p>

Dolmen City REIT**Appendix I**

FINANCIAL SUMMARY		<i>(amounts in PKR billions)</i>				
<u>BALANCE SHEET</u>						
Net Asset Value	Year 1	Year2	Year3	Year4	Year5	Year10
	23.348	24.516	25.742	27.029	28.380	36.221
<u>INCOME STATEMENT</u>						
Net Operating Income	2.236	2.448	2.688	2.952	3.243	5.195
Net Income	3.225	3.485	3.774	4.091	4.435	6.738
Dividend	2.113	2.317	2.549	2.803	3.084	5.013
<u>TOTAL RETRUN ANALYSIS</u>						
Net Dividend Yield (%)	9.50%	10.42%	11.46%	12.61%	13.87%	22.55%
Capital Appreciation (%)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Total Return	14.50%	15.42%	16.46%	17.61%	18.87%	27.55%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

REITs Rating Scale

RR1+, RR1, RR1-

Funds rated in the 'RR1' category are judged to be of highest investment quality. Assurance of returns over the foreseeable horizon is excellent.

RR2+, RR2, RR2-

Funds rated in the 'RR2' category are judged to be of high investment quality. Assurance of returns over the foreseeable horizon is high.

RR3+, RR3, RR3-

Funds rated in the 'RR3' category are judged to be of good investment quality. Assurance of returns over the foreseeable horizon is good.

RR4+, RR4, RR4-

Funds rated in the 'RR4' category are judged to be of average investment quality. Assurance of returns over the foreseeable horizon is moderate.

RR5+, RR5, RR5-

Funds rated in the 'RR5' category are judged to be of speculative investment quality. Assurance of returns over the foreseeable horizon is limited.

Rating Watch:

JCR-VIS places a rating under 'Rating Watch' status when it deems that there are conditions present that necessitate re-evaluation of the assigned rating. Refer to our 'Criteria for Rating Watch' for details

(www.jcrvis.com.pk/images/criteria_watch.pdf)

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURE		Appendix III	
Name of Rated Entity	Dolmen City REIT		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	REIT Rating		
Rating History	Rating Date	REIT Rating	Rating Action
	26-May-15	RR1	Initial
Instrument Structure	N/A		
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.		
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