



The Pakistan Credit Rating Agency Limited

Rating Report

TPL REIT Fund I

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Dec-2024	RFR 3+	-	Stable	Maintain	-
23-Dec-2023	RFR 3+	-	Stable	Maintain	-
23-Dec-2022	RFR 3+	-	Stable	Initial	-
23-Dec-2021	RFR 3+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

TPL REIT Fund I (the "Fund") is a perpetual, closed-end, Shariah-compliant hybrid REIT scheme launched by TPL REIT Management Company Limited. The REIT Fund initial size was proposed to be PKR 80bln (~USD 350mln) out of which 60% of the targeted fund from foreign investors, 30% from domestic investors, and the rest 10% from its strategic investor, TPL Properties Ltd. Currently, the domestic Fund completed its first funding round of PKR 18.35bln in tranches, with the third and final tranche of PKR 3.375bln received from anchor investors last year. Following disbursement, TPL Properties (strategic investor) holds 38.02%, while other investors collectively hold 61.98% of the Fund. While Foreign funds would be routed in Pakistan through one or more feeder funds established in acceptable offshore jurisdictions which will allow foreign investors to invest in REIT through a regulated tax-efficient vehicle.

In May 2024, the Fund was listed on the Pakistan Stock Exchange (PSX)—the sale of 33,473,295 units during the IPO generated PKR 588.8mln. The funds raised from the final tranche have been utilized for: a) the Completion of site design for The Mangroves project b) the Construction of a Biodiversity Park at The Mangroves c) Covering other ancillary costs related to the project. TPL REIT Fund I, comprises three real estate projects under three SPVs 1) Mangrove: Master planned community including mid-rise residential apartment towers, retail space, offices, and hospitality asset located at the waterfront ii) One Hoshang: Pakistan's one-of-a-kind premium high-end residential apartment tower and showrooms with world-class amenities and iii) Technology Park. The total cost of the projects would be financed by a majority mix of equity and customer advances against the sale of developed inventory with minimal debt financing. The Mangrove and One Hoshang projects are progressing steadily. One Hoshang: To date grey structure up to 2nd floor has been completed. Pakistan's real estate sector faced challenges in FY24, including property value adjustments, high interest rates, delayed construction progress, and a decline in business activity. Going forward, real estate landscape will be influenced by the lower expected interest rate trajectory. This evolving environment is likely to create favorable conditions for the commercial real estate market. In view of the depressed demand during FY24, for office space market the Fund is considering revisiting the Technology Park project to reposition the portfolio, aligning it with the evolving market dynamics and investor expectations. On financial front, the Fund generated a bottom line of PKR 376mln (FY23: PKR 9.2bln) the decline in profitability is attributable to the significant decrease in the unrealized gain on an investment property. While the NAV reported at Jun'2024 was 17.87/unit (FY23: 19.39/unit). The assigned rating captures the risk profile of all projects and may be impacted by the risk profile of future projects.

The ratings are dependent upon the company's ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remains important. Moreover, upholding of governance framework is vital.

Disclosure

Name of Rated Entity	TPL REIT Fund I
Type of Relationship	Solicited
Purpose of the Rating	REIT Fund Rating Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Assessment Framework REIT Fund Rating(Oct-24)
Related Research	Sector Study Real Estate(Jun-24)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Profile

Portfolio Mix TPL REIT Fund-I (the "Fund") is well-diversified at the property level and segment level. At the property level, the Fund is invested in three projects simultaneously; therefore, it is not dependent on a single project. At the segment level, the projects are diversified into i) Technology Park (commercial office & business hotel) ii) Mangrove (waterfront mid-rise community) and iii) One Hoshang (luxury residences). At the geographic level, the Fund is concentrated in Karachi.

Economic & Industry Risk

Economic Overview Pakistan's real estate sector faced challenges in FY24, marked by high interest rates, slow construction progress, and new regulations in the 2024-25 budget, such as revised property tax rates and changes to capital gains tax. These measures aim to expand the tax base but may delay recovery in the sector. The 2024-25 budget introduced tax rebates for LEED-certified green projects and developer credits for affordable housing. REITs benefit from tax-exempt dividends and reduced corporate tax rates. These reforms aim to drive growth, attract long-term investments, and promote sustainability. Going forward, real estate landscape will be influenced by the lower expected interest rate trajectory. This evolving environment is likely to create favorable conditions for the commercial real estate market.

Industry Dynamics As of June 2024, the industry includes 29 RMCs with total assets of PKR ~14.45bn (~0.3% of NBFC assets), up from 24 RMCs with PKR ~12.60bn (~0.4%) in Dec'2023. TPL-RMC, licensed for REIT management, launched Pakistan's first hybrid Non-PPP REIT Fund, achieving a first close of PKR 18.35bn in three tranches, establishing its market presence.

Asset Quality Risk

Market Position The properties falling under the TPL REIT Fund I would have a position because of which the risk of material variation in salability and occupancy level would be low. The competitiveness would be judged on the provision of quality services, maintenance services, and provision of amenities. Furthermore, the development of REIT Fund's properties based on international safety, sustainability, and environmental standards would further enhance the market positioning of the property. In addition to this, the design of properties approved by world-acclaimed international and local third-party partners is also strengthening the market position.

Tenancy Risk Upon completion, the projects may face tenancy risk, which also applies to TPL REIT Fund-I as a hybrid REIT. However, the rental REIT portion constitutes a minimal share of the total hybrid fund, rendering its risk impact negligible.

Legal Risk The land acquired for projects is clear from any lien mark, stay orders against the transfer of the legal title, availability of complete documentation, and approvals obtained from relevant authorities for real estate development.

Third-Party Service Provider Risk TPL - RMC is working with several highly qualified and renowned third-party service providers who have history of delivering timely and top product. However, there will always be a risk that the third-party service providers fail to deliver or the quality is not up to the standards. In the case of TPL REIT, TPL Developments (Private) Limited is the development advisor, which is a subsidiary of TPL Properties Limited. TPL Properties Limited through its property management arm has the expertise of property management of rental assets. The independent valuator appointed for the valuation of properties is Savills Pakistan, which is on the list of approved valuers maintained by the Pakistan Bank's Association. This ensures the independence of the valuator. The auditor of the TPL REIT FUND -I is KPMG Taseer Hadi & Co. who falls under category "A" on the panel of approved auditors maintained by SBP. The Fund Administrator for offshore feeder fund of TPL REIT is MAPLES GROUP, a leading international fund administrator. Digital Custodian Company has been engaged as the Trustee of TPL REIT.

Event Risk There is an event risk of unexpected cash outflows. Insurance arrangements can mitigate this risk.

Financial Risk

Cashflows The Fund has completed its first funding round of PKR 18.35bn in tranches, with the third and final tranche of PKR 3.375bn received from anchor investors last year. Following disbursement, TPL Properties (strategic investor) holds 38.02%, while other investors collectively hold 61.98% of the Fund.

Coverages TPL RMC plans to meet the capital requirement of the projects from advances against the off-plan sale of inventory, in addition to proceeds raised in its Financial Close. There is a risk that the quantum and stability of the cash flows are not according to the expectations. The REIT Fund proposes to distribute at least 90% of its profits (excluding unrealized gain) as dividends to its unitholders. The Fund may retain minimal liquidity that it would invest surplus funds in liquid assets approved by the investment committee. Liquid assets may include Government securities, money market funds, or deposits with commercial banks having at least AA long-term rating.

Capital Structure Following disbursement, TPL Properties (strategic investor) holds 38.02% , while other investors collectively hold 61.98% of the Fund. Going forward, the RMC may avail borrowing from financial institutions either at the Fund or SPV level (as necessary). All borrowing shall be availed with the approval of the REIT Manager's Board of Directors and the Trustee, or the Board of Directors of the SPV, as applicable.

Management Review

REIT Manager TPL REIT Management Company Limited (TPL-RMC) is a public limited company, regulated by the SECP. TPL-RMC was incorporated in 2018 to capitalize on the emerging REITs market in Pakistan. TPL-RMC holds the license to undertake REIT Management Services. The RMC is generating income from management and performance fee earned from providing REIT management services to TPL REIT Fund I. The RMC is charging an annual management fee @1.5% of NAV and a performance fee @ 15% of the change in NAV from the REIT fund. During FY24, the per unit NAV of REIT Fund decreased by ~8% and closed at PKR 17.87 per unit on 30th Jun 2024.



The Pakistan Credit Rating Agency Limited

PKR mln

TPL REIT Management Limited
Public Limited

Jun-24

Jun-23

Jun-22

Jun-21

12M

12M

12M

12M

A BALANCE SHEET

1 Earning Assets	1,120	867	337	417
2 Non-Earning Assets	1,068	1,213	523	3
3 Total Assets	2,187	2,081	860	420
4 Total Borrowing	-	-	-	-
5 Other Liabilities	699	718	217	10
6 Total Liabilities	699	718	217	10
7 Shareholders' Equity	1,489	1,363	643	410

B INCOME STATEMENT

1 Investment Income	637	1,052	463	8
2 Operating Expenses	(398)	(493)	(129)	(1)
3 Net Investment Income	239	560	333	7
4 Other Income	-	-	4	7
5 Total Income	239	560	337	14
6 Other Expenses	(2)	(5)	(7)	-
7 Total Finance Cost	(0)	(0)	-	-
8 Profit Or (Loss) Before Taxation	236	554	331	14
9 Taxation	(111)	(190)	(98)	(1)
10 Profit After Tax	126	364	233	13

C RATIO ANALYSIS

1 Investment Performance

i. Investment Income / Average AUMs	N/A	N/A	N/A	N/A
ii. ROE	8.8%	36.3%	44.3%	5.8%
iii. ROA	5.9%	24.8%	36.4%	5.6%

2 Financial Sustainability

i. Coverages				
a. Total Borrowing / EBITDA	N/A	N/A	N/A	N/A
b. EBITDA / Finance Cost	N/A	N/A	N/A	N/A
ii. Capitalization				
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	0.0%	0.0%	0.0%	0.0%

Rental REIT Fund Rating - Current

Opinion on the relative capacity of a Rental REIT fund to maintain stable rental income and risk factors impacting value of REIT assets.

Scale	Definition
AAA (rr)	Exceptionally Strong capacity to maintain stable rental income. Risk factors impacting value of REIT assets are considered negligible over the foreseeable future.
AA+ (rr) AA (rr) AA- (rr)	Very Strong capacity to maintain stable rental income. Risk factors impacting value of REIT assets are modest over the foreseeable future.
A+ (rr) A (rr) A- (rr)	Strong capacity to maintain stable rental income. Risk factors impacting value of REIT assets may be vulnerable to changes in the economy over the foreseeable future.
BBB+ (rr) BBB (rr) BBB- (rr)	Adequate capacity to maintain stable rental income. Risk factors impacting value of REIT assets may be impacted by changes in the economy over the foreseeable future.
BB+ (rr) BB (rr) BB- (rr)	Inadequate capacity to maintain stable rental income. Risk factors impacting value of REIT assets are high.
B (rr)	Weak capacity to maintain stable rental income. Risk factors impacting value of REIT assets are very high.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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