



The Pakistan Credit Rating Agency Limited

## Rating Report

### JS Rental REIT

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Jan-2025	A+(rr)	-	Positive	Maintain	-
03-Jan-2024	A+(rr)	-	Stable	Maintain	-
03-Jan-2023	A+(rr)	-	Stable	Initial	-
30-Jun-2022	A+(rr)	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The JS Rental REIT Fund (or the "Fund"), a perpetual closed-end scheme by JS Investments Limited, aims to provide stable returns through investments in fully developed, income-generating real estate assets in Pakistan. The assigned rating also incorporates sound governance, an experienced management team, and an adequate control environment. The compliance function ensures adherence to all applicable internal and external rules and regulations. The only investor of the JS Rental REIT Fund is JS Lands Private Limited which holds 100% units of the Fund.

The positive outlook reflects the expanded fund size, enhanced market share, and anticipated yield improvement of the JS Rental REIT. During CY24, the JS Investment Limited-RMC ("JSIL-RMC" or the "Company") added five additional floors (9th-13th) to the rental REIT increasing the fund size from PKR 719mln to PKR 2.2bln as of Sep'24 and bringing the total number of floors under the REIT from two (19th and 20th) to seven (9th-13th, 19th-20th). The JSIL-RMC is deriving its core income from its dominating asset "The Centre". The building targeted for the REIT scheme is located on Abdullah Haroon Road, Saddar, Karachi. The site has a land area of 3,988 sq. yds. The building is a state of the art with branded lifts installed, an HVAC plant, and the latest security structure along with ample car parking space, a cafeteria, and a gym. Out of the total 22 floors with the ground and mezzanine floor dedicated to the shopping mall, six floors are parking floors, 8th floor is MEP and the 9th-14th floors are currently vacant. The tenancy agreements for the newly added floors are currently under negotiation. Meanwhile, the 19th and 20th floors rented to group companies, boast a strong tenant profile.

At the end of 9MCY24, rental income from REIT Rental Fund stood at PKR 15.8mln (9MCY23: PKR 15.1mln). Whereas, the profit after tax (PAT) of the Fund decreased by 69% and stood at PKR 3.6mln as of 9MCY24 (9MCY23: PKR 11.9mln) due to maintenance charges of PKR 8mln.

The rating would remain dependent on the sustainability of the JSIL-RMC, successful fundraising, achievement of milestones, and listing of the Fund. Successful completion of each project falling under the REIT scheme and generation of expected return would remain critical for rating. Moreover, upholding of governance framework is vital.

#### Disclosure

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



## Profile

**Portfolio Mix** JS Investments Limited ("JSIL-RMC" or the "Company") launched a Rental REIT fund at the end of June 2022. The initial fund size is ~PKR 658mln which stood at PKR 2,237mln at the end of Sep'24. The site has a land area of 3,988 sq.yds, whereas, each floor has an area of 11,610 sq. ft. The structure consists of 22 floors with a helipad on the rooftop. The JS Lands (Pvt.) Limited is the strategic investor of rental REIT with 100% holdings.

## 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. These downturns have heightened concerns among investors, developers, and potential homeowners, leading to reduced confidence in real estate investment.

**Industry Dynamics** As of June 2024, the industry includes 29 RMCs with total assets of PKR ~14.45 billion (~0.3% of NBFC assets), up from 24 RMCs with PKR ~12.60 billion (~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 18.35bln in three tranches, establishing its market presence.

## Asset Quality Risk

**Market Position** The subject building, named "The Center" under the Fund is situated at Abdullah Haddon Road, near Zainab Market. The property is in a prime commercial zone of Karachi surrounded by Government buildings and corporate offices. The property is owned by JS Lands Private Limited.

**Tenancy Risk** The Centre is 22 floors building with the ground and mezzanine floor dedicated to the shopping mall. While six floors are parking floors. During the year, the Company added five additional floors (9th-13th) to the rental REIT, increasing the fund size from PKR 791mln to PKR 2.2bln and bringing the total number of floors under the REIT to seven (9th-13th, 19th and 20th). The Tenancy agreements for the newly added floors are currently under negotiation. Meanwhile, the 19th and 20th floors, rented to group companies, boast a strong tenant profile.

**Legal Risk** The subject property is clear from any lien mark and stay orders against the transfer of the legal title.

**Third-Party Service Provider Risk** The valuation of the property is conducted by Oceanic International Pvt Limited. While Digital Custodian Company Limited is the trustee of the scheme. Grant Thornton is the external auditor of the Fund while the legal advisor are HaiderMota & Co.

**Event Risk** The subject property is insured.

## Financial Risk

**Cashflows** The property is situated at one of the prime locations of Karachi and has a strong market position. While the tenants of the property JS Global Capital and JS Investments Limited are financially very strong and generate stable cash flows. Special consideration would be given to the existence of liquid assets, available borrowing lines, and access to capital markets to sustain ongoing operations including proper maintenance and upkeep of the properties and all related services and amenities, and cover the incurrence of unexpected costs (e.g., financial penalties or fines from legal authorities or third parties).

**Coverages** Key cash flow measures would include a REIT's Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) where AFFO accounts for the impact of ongoing maintenance expenses, capital expenditure, and impact of any rent increases and advances received from tenants. Analysis of the adequacy of coverage provided by cash flows to outstanding costs, including debt principal and interest payments.

**Capital Structure** The equity of JS Rental REIT stood at PKR 2,239mln at the end of 9MCY24 whereas it stood at PKR 2,235mln at the end of Jun'24.

## Management Review

**REIT Manager** JS Investments Limited was established in 1995 and is listed on the Pakistan Stock Exchange. The Company is part of the Jahangir Siddiqui (JS) Group. JS Bank Limited holds ~85% shareholding in the Company. JS Investments possesses licenses for Asset Management, Investment Advisory, Private Equity, Venture Capital, and REIT management Services. In addition, the Company also acts as Pension Fund Manager under the Voluntary Pension System Rules, 2005. The equity base of the Company was PKR 1.9bln as of Sep'24 (SPLY: PKR 1.5bln). During 9MCY24, the Company reported PAT of PKR 256mln in 9MCY24 (SPLY: PKR 117mln). At the end of 9MCY24, rental income from REIT Rental Fund stood at PKR 15.8mln (9MCY23: PKR 15.1mln). Whereas, the profit after tax (PAT) of the Fund decreased by 69% and stood at PKR 3.6mln as of 9MCY24 (9MCY23: PKR 11.9mln) due to maintenance charges of PKR 8mln.



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	<i>PKR mln</i>			
	Sep-24	Dec-23	Dec-22	Dec-21
	9M	12M	12M	12M

**A BALANCE SHEET**

1 Earning Assets	1,654	1,437	1,176	1,382
2 Non-Earning Assets	786	686	596	603
<b>3 Total Assets</b>	<b>2,440</b>	<b>2,122</b>	<b>1,772</b>	<b>1,985</b>
4 Total Borrowing	200	184	238	269
5 Other Liabilities	319	272	178	173
<b>6 Total Liabilities</b>	<b>519</b>	<b>457</b>	<b>416</b>	<b>442</b>
<b>7 Shareholders' Equity</b>	<b>1,921</b>	<b>1,665</b>	<b>1,355</b>	<b>1,504</b>

**B INCOME STATEMENT**

1 Investment Income	634	642	197	53
2 Operating Expenses	(316)	(384)	(356)	(332)
<b>3 Net Investment Income</b>	<b>318</b>	<b>258</b>	<b>(159)</b>	<b>(279)</b>
4 Other Income	3	23	45	25
5 Total Income	321	281	(114)	(254)
6 Other Expenses	-	-	-	-
7 Total Finance Cost	(22)	(27)	(28)	(34)
<b>8 Profit Or (Loss) Before Taxation</b>	<b>299</b>	<b>254</b>	<b>(142)</b>	<b>(289)</b>
9 Taxation	(44)	56	(8)	(11)
<b>10 Profit After Tax</b>	<b>256</b>	<b>310</b>	<b>(149)</b>	<b>(300)</b>

**C RATIO ANALYSIS**

<b>1 Investment Performance</b>				
i. Investment Income / Average AUMs	N/A	N/A	N/A	N/A
ii. ROE	19.0%	20.5%	-10.4%	-19.9%
iii. ROA	15.0%	15.9%	-7.9%	-15.1%
<b>2 Financial Sustainability</b>				
i. Coverages				
a. Total Borrowing / EBITDA	N/A	N/A	N/A	N/A
b. EBITDA / Finance Cost	0.00%	0.00%	0.00%	0.00%
ii. Capitalization				
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	9.4%	10.0%	14.9%	15.2%

### 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)	<b>Exceptionally Strong</b> 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)	<b>Very Strong</b> 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)	<b>Strong</b> 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)	<b>Adequate</b> 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)	<b>Inadequate</b> capacity to maintain stable rental income. Risk factors impacting value of REIT assets are high.
B (rr)	<b>Weak</b> 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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(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)

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- 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

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- (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).
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- (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)
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- (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)

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