



The Pakistan Credit Rating Agency Limited

Rating Report

Zameen Five REIT

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Nov-2023	RFR 2+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The assigned rating takes into account the Group's notable competence in strategic project selection and its thorough approach to risk management practices. Zameen REIT Management Company Limited ("Zameen RMC") is wholly-owned subsidiary of Zameen Developments (Private) Limited which is the associated company of Zameen Media (Pvt) Ltd. Zameen Media (Pvt) Ltd was initially engaged in only online classifieds business however, later in 2017 the Group expanded into developmental activity through its associated company, namely Zameen Developments (Private) Limited. The successful backward integration from online classifieds to developmental bodes well for the assigned rating. Zameen REIT Management Company Limited is in the process of launching the Zameen Five REIT (the "Fund"). The Fund is a closed-end, Shariah-compliant scheme. The fund aims to provide consistent and reliable returns by investing in a variety of sustainable and income-generating real estate assets in Pakistan. The REIT Fund size is proposed to be ~ PKR 2bln out of which PKR 1.5bln has been invested by Dubizzle Group Holdings Limited, the ultimate controlling parent company of Zameen RMC, through its subsidiary while ~PKR 500mln is targeted to be invested by a Private Investor. The funds raised will be utilized for the construction and development of the projects. Within three years of its financial launch, the fund plans to be listed on the stock exchange. The investment in Real Estate Development Assets would be through the SPV structure. The dedicated special purpose vehicles (SPVs) structure will enhance transparency and delineate responsibilities. The Fund is comprised of five projects each with its unique features namely; i) Zameen Aurum, ii) Zameen Quadrangle iii) Zameen Neo iv) Zameen Jade, and v) Zameen Phoenix. All projects are strategically located in prime locations in Lahore. The land of all the projects has been successfully acquired by the SPVs and due diligence of the project lands has been duly conducted. Bank borrowing is expected to be raised. The construction of the projects would be funded by a mix of advances received against sales from customers over the life of the scheme and bank borrowings. A brief description of the real estate projects is as follows: Zameen Aurum: The project includes a 15-storey building with three basements, a ground floor, and 11 upper floors, to date 89% of customer advances have been received while the project is ~ 65% complete ii) Zameen Quadrangle: The project spans over ground plus 11 stories and includes 148 apartments along with four convenience shops, to date 66% of customer advances have been received while the project is ~ 64% complete iii) Zameen Neo: A ground-plus-six-floor building includes 42 Residential units along with four convenience shops iv) Zameen Jade: This project comprises of 417 apartments and features amenities like an indoor pool, gym, private facilities v) Zameen Phoenix: This project offers 67 well-designed apartments, along with access to four convenience shops and secure underground parking. Sale of Zameen Jade, Zameen Phoenix, and Zameen Neo have also been started against the advance payments from customers. Going forward, successful completion of the REIT Projects will remain imperative to the rating. Ratings are dependent upon the successful timely completion of projects.

Disclosure

Name of Rated Entity	Zameen Five REIT
Type of Relationship	Solicited
Purpose of the Rating	REIT Fund Rating Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-23),Assessment Framework REIT Fund Rating(Oct-23)
Related Research	Sector Study Real Estate(May-23)
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504

Profile

Operations Zameen Five REIT (or the "Fund" or "Scheme") is a hybrid closed-end, Shariah-compliant Scheme launched by Zameen REIT Management Company Limited. This fund aims to provide consistent and reliable returns by investing in a variety of sustainable real estate and income-generating real estate assets in Pakistan. Within three years of its financial launch, the fund plans to be listed on the stock exchange. The REIT Fund size is proposed to be ~PKR 2bln out of which PKR 1.5bln has been invested by Dubizzle Group through its subsidiary while ~PKR 500mln is targeted to be invested by a Private Investor.

Portfolio Mix The fund is well-diversified at the property level and segment level. At the property level, the fund is comprised of five projects simultaneously; therefore, it is not dependent on a single project. At the segment level, the projects are diversified into namely; i) Zameen Aurum ii) Zameen Quadrangle iii) Zameen Neo iv) Zameen Jade and v) Zameen Phoenix which are located at prime locations in Lahore.

Economic & Industry Risk

Economic Overview The real estate industry's performance is closely tied to the overall state of the economy. Key economic factors such as GDP, manufacturing activity, interest rates, and government policies have a significant impact on the demand for and pricing of real estate. In Pakistan, these macroeconomic indicators present a mixed picture. On one hand, there has been a noticeable economic recovery following the pandemic, with upward revisions in GDP estimates. However, the situation is marked by uncertainty due to political instability, a current account deficit, and the suspension of the IMF program. Despite these challenges, the government has recently demonstrated a strong commitment to supporting the real estate and construction sector. They have introduced several incentive packages to encourage growth in the construction industry. Additionally, the low-interest rate environment prevailing in the country has further fueled the expansion of this sector.

Industry Dynamics PACRA analyzes the real estate industry in the context of the local economy and regulatory environment. Currently, the industry size comprises 18 RMCs registered with SECP, with total assets amounting to PKR ~9.0bln but only one REIT is listed on the Pakistan Stock Exchange (PSX). Arif Habib Dolmen REIT is the only major player in the market with a fund size of ~PKR 52bln. TPL REIT Fund I is the second-largest player and the first hybrid fund in the industry with an initial fund size of ~PKR 18.35bln, aiming to reach the target fund size of PKR 80bln. Zameen RMC is one of those companies licensed to undertake REIT management services and is in the process of launching the first REIT scheme in Punjab i.e. a hybrid REIT Fund by initially raising up ~PKR 2bln. The real estate sector of Pakistan is thriving and flush with private sector investment owing to the incentive packages given by the current government for the real estate sector.

Asset Quality Risk

Market Position The properties within the Zameen Five REIT benefit from a strong market position due to their low risk of significant fluctuations in both sales and occupancy levels. Their competitive edge is based on the delivery of high-quality services, reliable maintenance, and the availability of various amenities. In addition, the properties developed by the REIT Fund adhere to international safety, sustainability, and environmental standards, which further bolsters their standing in the real estate market. Zameen.com, established in 2006, is Pakistan's largest online real estate platform that connects property buyers and sellers, both domestically and internationally. Zameen.com boasts the most extensive customer network in Pakistan's real estate sector.

Project Risk The primary risk across all projects under the Zameen Five REIT scheme is the chance that these projects may not meet their expected completion timelines due to potential financial constraints.

Tenancy Risk The projects, once complete, will be subjected to tenancy risk. Being a hybrid REIT fund, Zameen Five REIT would also be subjected to this risk. The risk-deriving factors would be tenancy agreements, vacancy rates, profile, and diversity of tenant base. In this regard role of the property manager would carry due weightage which is Zameen Developments (Pvt.) Ltd.

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 The Company has developed an in-house setup for providing services like structural designing, and project development. In the case of Zameen Five REIT, Zameen Developments (Pvt.) Ltd. would be the development advisor and development service provider, which is a subsidiary of Dubizzle Group. While Zameen Media (Pvt.) Ltd. would provide quantifiable leads and digital marketing/IT services. The management's experience in real estate has equipped it to effectively oversee all those areas which has enabled them to eliminate the reliance on third-party.

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

Financial Risk

Financing Arrangements The fund size is targeted at ~PKR 2bln out of which PKR 1.5bln has been injected by Dubizzle Group Holdings Limited which has been utilized for the purchase of land for projects. The remaining ~PKR 500mln will be invested by private investors and will be utilized for construction purposes. The funds raised from the "Zameen Five REIT" fund will be invested in five projects namely; i) Zameen Aurum ii) Zameen Quadrangle iii) Zameen Neo iv) Zameen Jade and v) Zameen Phoenix.

Cashflows & Coverages Zameen Five REIT intends to secure the necessary funds for its projects through customer advances against the off-plan sale of project inventory, in addition to fresh proceeds raised from borrowing and equity injection. There is a risk that the quantum and stability of the cash flows are not according to the expectations. The REIT Fund intends to distribute a minimum of 90% of its profits (excluding any unrealized gains) as dividends to its investors. While doing so, the Fund may maintain a small reserve of liquid funds, which will be invested in assets approved by Zameen RMC's investment committee.

Capital Structure Zameen Five REIT will obtain a loan facility of PKR 1bln to finance the projects. This borrowing will be in addition to the total fund size of PKR 2bln. The debt raise may affect REIT's ability to adapt to economic changes or sustain shocks in business.

Management Review

REIT Manager Zameen REIT Management Company Limited (the "Company") was incorporated on 1st Mar 2023 as a public limited company under the Companies Act, 2017. The Company was licensed on 16th May 2023 by SECP to carry out REIT Management Services as an NBFC. The Company is a wholly owned subsidiary of Zameen Developments (Private) Limited. The Zameen RMC is generating income from management and performance fee earned from providing REIT management services to Zameen Five REIT. 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.



The Pakistan Credit Rating Agency Limited

Zameen REIT Management Company Limited
Private Limited

Jun-23

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A BALANCE SHEET

1 Earning Assets	73
2 Non-Earning Assets	0
3 Total Assets	73
4 Total Borrowing	26
5 Other Liabilities	0
6 Total Liabilities	27
7 Shareholders' Equity	46

B INCOME STATEMENT

1 Investment Income	-
2 Operating Expenses	(4)
3 Net Investment Income	(4)
4 Other Income	-
5 Total Income	(4)
6 Other Expenses	-
7 Total Finance Cost	-
8 Profit Or (Loss) Before Taxation	(4)
9 Taxation	-
10 Profit After Tax	(4)

C RATIO ANALYSIS

1 Investment Performance	
i. Investment Income / Average AUMs	N/A
ii. ROE	-8.2%
iii. ROA	-5.2%
2 Financial Sustainability	
i. Coverages	
a. Total Borrowing / EBITDA	N/A
b. EBITDA / Finance Cost	N/A
ii. Capitalization	
a. Total Borrowing / (Total Borrowing + Shareholders' Equity)	36.0%

REIT Fund Rating (RFR)

An independent opinion on a Development or Hybrid REIT fund's likelihood of successful implementation of REIT projects and risk factors impacting value of REIT assets.

Scale	Definition
RFR1	Exceptionally Strong. Exceptionally Strong likelihood of successful implementation of REIT project. Risk factors impacting value of REIT assets are negligible over the foreseeable future.
RFR2++ RFR2+ RFR2	Very Strong. Very Strong likelihood of successful implementation of REIT project. Risk factors impacting value of REIT assets are modest over the foreseeable future.
RFR3++ RFR3+ RFR3	Strong. Strong likelihood of successful implementation of REIT project. Risk factors impacting value of REIT assets may vary with possible changes in the economy over the foreseeable future.
RFR4++ RFR4+ RFR4	Adequate. Adequate likelihood of successful implementation of REIT project. Risk factors impacting value of REIT assets are sensitive to changes in the economy over the foreseeable future.
RFR5	Weak. Weak likelihood of successful implementation of REIT project. Risk factors impacting value of REIT assets are capable of fluctuating widely if changes occur in the economy.

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 surveill 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

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(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).

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(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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