

DOLMEN CITY REIT

BUSINESS PLAN



Up to PKR 22.662 BILLION RENTAL REIT SCHEME

MANAGED BY

ARIF HABIB DOLMEN REIT MANAGEMENT LIMITED

TRUSTEE

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

November 2014


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1. Executive Summary

Name of the REIT	Dolmen City REIT
Nature of the Scheme	Perpetual, Rated, Listed, Closed-end Shariah Compliant Rental REIT
REIT Management Company	Arif Habib Dolmen REIT Management Limited
Listing	Karachi Stock Exchange Limited (“KSE”)
Instrument	Units of Dolmen City REIT (In PKR 10 denominations)
Purpose	<p>The REIT Scheme proposes to acquire two components of the Dolmen City Project with the objective of generating rental income for Unit Holders</p> <p>The REIT Scheme may further generate gains for the Unit Holders from selling the real estate or parts thereof, with prior written approval from the SECP</p>
Project Snapshot	<p>The project is located at commercial plot No. HC-3, Block 4, Scheme No. 5, Marine Drive, Clifton, Karachi. The REIT scheme comprises:</p> <ul style="list-style-type: none"> • The Harbour Front, a 19 storey Office Building with a built up area of approximately 270,271 square feet • Dolmen City Mall, an international standard shopping mall with a built up area of approximately 1.29 million square feet 
Fund Size	PKR 22,662 Million
Pre-IPO portion of the Fund	PKR 16,996.500 Million (equivalent to 75% of the fund size)
IPO portion of the Fund	<p>PKR 4,249.125 Million (75% of the IPO portion through Book Building process); and</p> <p>PKR 1,416.375 Million (25% of the IPO portion through Initial Offering to the general public)</p>

Remaining lease period of the real estate	61 years (starting from 1975 till 2075)
Trustee and Unit Registrar	Central Depository Company of Pakistan Limited 'CDC'
Property Manager	Dolmen Private Limited (DPL Management)
Property Valuer	National Engineering Services Pakistan (Pvt.) Limited 'NESPAK'
Legal Counsel	Mohsin Tayebaly & Co., Advocates & Corporate Legal Consultants
Shariah Advisor	Mufti Muhammad Ibrahim Essa (Jamiah Darul Uloom, Karachi)
Auditor	KPMG Taseer Hadi & Co. Chartered Accountants
Rating Agency	JCR-VIS Credit Rating Company Limited 'JCR-VIS'
Potential Participants	Banks, NBFIs, DFIs, Mutual Funds, Pension, Provident, Gratuity Funds, Other Bodies Corporate, Individuals <i>(Subject to regulations that may apply to these entities)</i>
Expected Listing Date	January, 2015
Anticipated Return	Projections and Scenario Analysis are detailed in section 7. Based on full occupancy and 100% payout, Dividend Yield is expected at 9.33% in the first year, which grows to 13.61% in the fifth year and 22.10% in the tenth year; In addition to Cash yield as stated above, Capital Appreciation is conservatively projected at 5% per annum. This will be reflected in Net Asset Value (NAV) and would be realizable through sale of Units at the stock exchange

2. Dolmen City Project

2.1 Business Case

Evolving Trend

The heavy contribution of the services sector to Pakistan's GDP signifies a broad consumer base with growth in income and subsequently purchasing power. Within the services sector, the wholesale and retail trade sector has gained vast momentum in the past decade.

Major office related employment in Pakistan is concentrated in the finance, professional and business services sectors creating demand for smart, secure and modern office spaces. The cost of land and construction under the current erratic market conditions however poses a significant cost challenge to organizations in this regard. Demand is now focused on quality, value for money rental accommodation at decentralized locations.

Increasing urbanization, traffic congestion, parking shortages and CBD saturation has created a need for mixed-use developments that provide a one-stop solution to address commercial, leisure and business needs.

Concept Identification

Shopping malls provide an assortment of stores and merchandise at one location combining shopping with leisure. Not only do they provide an inexpensive form of entertainment but also make a large intangible contribution to the surrounding community and trade area.

As Pakistan's retail consumption becomes more composite it needs a transition from small retail clusters to big box stores and shopping malls. Awareness stemming from foreign travel and social influences has attracted an array of international brands. Resultantly modern real estate development was needed to accommodate these brands.

The gradual evolution started in the retail industry with the inception of big box chains (Like Metro, Makro and Hyperstar). This was followed by new supply of malls built to meet international standards with adequate parking, well planned circulation and comprehensive building management systems and centralised amenities.

Seizing the Opportunity

Having closely observed the commercial evolution, the need for a lifestyle development to meet retail and office space requirements was identified as an opportunity and Dolmen City Project emerged as Pakistan's first international standard mixed use development.

2.2 Project Components

Dolmen City, located at the scenic coastline of Karachi integrates multiple components catering to the social and commercial needs of the city. It has five components:



Harbour Front: Nineteen storeys state-of-the art office building; with a built up area of approximately 270,271 square feet

Dolmen Mall: Multi storey regional mall of international standard with a built up area of more than 1.29 million square feet

Executive Tower: Sea-facing multi storey office building; and

Envisaged: Two towers of thirty five storeys each to accommodate hospitality and office space



3. Dolmen City REIT Proposal

3.1 REIT Objective

Arif Habib Dolmen REIT Management Limited (AHDRML, the REIT Management Company) proposes inclusion of the Harbour Front and the Dolmen Mall (together referred as the subject real estate); in a Perpetual; Rated; Listed; Closed end Shariah Compliant Rental REIT scheme, 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 Commission (Securities & Exchange Commission of Pakistan or the 'SECP').

The subject real estate is approved by the SECP for inclusion in the REIT scheme under Rule 6 of the REIT Regulations (SECP approval letter is appended in section 8.4)



3.2 REIT - Property Details

3.2.1 Specifications

S. No.	Real Estate area description	Built up Area (square feet)	Let able Area (square feet)
1	Lower Basements	186,153	-
2	Upper Basements	274,285	5,585
3	Shopping Mall - Ground floor	241,052	192,928
4	Mezzanine floor	19,879	-
5	Shopping Mall - First floor	275,399	180,156
6	Shopping Mall - Second floor	272,972	180,497
7	Plant and Transformer Rooms – Third floor	27,667	-
8	Harbour Front Office building – Floors 3 to 19	270,271	250,963
	Total	1,567,678	810,129

3.2.2 The Harbour Front - Salient features

State-of-the-art Security System

The building is monitored 24x7 via a digital CCTV system, while all access points of the building including lobbies and parking areas are controlled via speed-gates, parking barriers and highly trained security personnel.



Integrated Building Management System (IBMS)

All sub-systems of the complex including HVAC, Health & Safety (Fire, Access Control, CCTV), Mechanical, Electrical, Elevators, etc. are controlled by the country's first truly 'Integrated Building Management System'. This system enables operators to achieve the maximum degree of energy management, while retaining a high degree of control over all operational aspects of building in a unified manner.

Fibre-Optic Communication System

The building is equipped with an in-house fibre-optic network ensuring high-bandwidth availability and end-to-end fibre optic data connectivity. The building infrastructure accommodates all high-demand applications required by the tenant e.g. video conferencing.

Voice Data Infrastructure

The building has a Tier-2 data centre with a capacity to be scaled to a Tier-3 facility. This data centre hosts all the building sub-systems. The building also has a dedicated Optical Network Unit to provide maximum flexibility and reliability catering to all kinds of voice circuits required by the tenants.

Uninterrupted Power Supply

Uninterrupted power supply is ensured via a continuous system of power generation.

Centrally Air-Conditioned

The building is centrally air conditioned with IBMS climate controlled system. Specific provisions have also been made for uninterrupted server room air conditioning complete with back up facilities.

Centralized Mail Room and Cargo Delivery Area

The building is equipped with a centralized mail room and cargo delivery area. Mail collection and cargo deliveries are received at one point to avoid unauthorized access to the tenant offices and ensure the safety and convenience of building occupants.

NFPA Compliant Fire Alarm/Suppression System

Each tenant floor has its own integrated fire alarm and fire suppression system consisting of smoke detectors, voice evacuation system, sprinkler system, smoke extraction system and two fireproof exit doorways to stair wells.

Reserved Tenant and Visitor Parking Facility

The Harbour Front's parking is especially managed and maintained for the occupants of the building. The parking area is fully illuminated, fire-controlled and access to the reserved parking area is filtered by means of electronic vehicle tags.

Valet Parking

Valet parking is available for tenants and authorised visitors.

High-Speed Elevator

Access to tenant floors is via six high-speed, large capacity Mitsubishi elevators.

Direct Access to the Food court & Shopping Mall

Direct access is available to Dolmen Mall Clifton through a secure dedicated entrance at Level 2.

Fact sheet

COMPLETED	2007
Built-Up Area	270,271 SFT.
Leasable Area (including 300 sq. ft. in upper basement)	251,263 SFT.
Total Floors (excluding 1 mezzanine level on 19 th floor)	19
Office Floors	17
High Speed Elevators	6



3.2.3 Dolmen Mall Salient features

Retail Outlets: Special consideration has been given to the tenancy mix at Dolmen Mall Clifton. An effective tenancy mix ensures that the mall has the right combination of outlets with the right placement to enhance the shopping experience for its patrons.

Prominent retail outlets in the Mall include Debenhams, Mango, Toni & Guy, Charles & Keith, Next, Nine West, Timberland, Mothercare, Khadi, Hub and Jafferjees.

Anchors Stores: Apart from 130 retail outlets, the mall has strategically placed multiple departmental and anchor stores which attract a large footfall and maximise shopper circulation throughout the mall.

Most prominent anchor tenant by area in the Mall is Hyperstar.

F&B Outlets: The mall has over 30 different options in the food & beverages category, which includes coffee shops, diners, fast food chains, dessert shops and fine dining restaurants.

Prominent F&B outlets in the Mall include The Fat Burger, Johnny Rocket, Gun Smoke, Burger King, Espresso, Gloria Jeans, Noodle House, PappaRoti, McDonalds and Bombay Chowpatti.

Spacious walkways and atriums:

The layout of the mall not only ensures a smooth pedestrian traffic flow, but also provides shoppers with pleasant open atriums which frequently host brand activation events.

Amusement Centres

Two family amusement centres are available at the mall, namely; Sindbad's Wonderland and Kidz Dunya.

Handicap accessibility

The entire shopping mall is accessible by handicapped shoppers. Special measures have been taken in this regard which include dedicated car parking spaces, ramps, wheel chair accessible toilets, large elevators and moving walkways.

COMPLETION	NOVEMBER 2001
Built-Up Area	1.29 Million Sq. Ft.
Leasable Area	558,866 Sq. Ft.
Footfall (Approx. Per Annum)	9 Million
Dept. / Anchor Stores	7
Retail Outlets	127
F & B Outlets	23
Amusement Center	2

Multi-level basement and surface parking

A sophisticated car parking management system is installed at the multi-level basement car park to assist visitors.

3.2.4 Plant & Equipment

Utilities and sub-systems supporting the Dolmen City complex comprises of: plant & equipment for Power Generation, HVAC, Security, Health & Safety (Fire, Access Control, CCTV), Mechanical, Electrical, Elevators, etc. A complete list of these assets with useful life is appended in section 9.2.

3.2.5 Valuation of Real Estate

According to the REIT Regulations Schedule IV, the fair market value determination of the real estate must be based upon at least two prescribed approaches. The approaches are:

- Income Capitalization Approach;
- Sales Comparison Approach; and
- Cost Approach

The subject real estate has been valued as per the SECP approved Terms of Reference by a Pakistan Bank's Association (PBA) approved panellist - National Engineering Services Pakistan (Pvt.) Limited 'NESPAK' in November 2014.

The Valuer used all prescribed approaches to value the real estate and has arrived at the following valuation:

Value of Real Estate assessed by NESPAK (figures rounded to nearest decimal place)	
Cost Approach	PKR 18,161,000,000
Sales Comparison Approach	PKR 51,500,000,000
Income Capitalization Approach	PKR 42,007,500,000

Cost Approach:

The fundamental premise of the cost approach is the estimated present cost of construction plus land value of real estate. A shortcoming of this approach to valuation is that it does not take into account the loss of income during construction and till the time project achieves desired occupancy. NESPAK has assessed the following value of the project based on cost approach:

Value of Real Estate by Cost Approach	Area	@ Rate (PKR)	Value (PKR)
Cost of Construction - Shopping Mall (per sq. ft.)	1,297,407	9,000	11,700,000,000
Cost of Construction - Harbour Front (per sq. ft.)	270,271	7,000	1,900,000,000
Land Value (per sq. yd.)	15,201.68	300,000	4,561,000,000
Total Value of the proposed Real Estate(rounded to nearest hundred million)			18,161,000,000

Sales Comparison Approach:

The Sales Comparison Approach (SCA) compares the subject property characteristics with those of comparable properties which have recently been sold. The process adjusts the prices of comparable transactions according to the presence, absence, or degree of characteristics, which influence value. As such, there is presently no similar size or scale real estate transaction in Karachi for comparison with Dolmen City Project.

Value of Real Estate by Sales Comparison Approach	Area (square feet)	@ Rate per sq.ft. (PKR)	Value (PKR)
Shopping Mall (net covered area)	836,969	55,000	46,000,000,000
Harbour Front (covered area)	270,271	20,000	5,500,000,000
Total Value of the proposed Real Estate (rounded to nearest hundred million)			51,500,000,000

Value based on Income Capitalization Approach:

Income Capitalization is a valuation method used by appraisers and real estate investors to estimate the value of income producing real estate. It is based upon the premise of anticipation i.e., the expectation of future benefits. It converts anticipated cash flows into present value by "capitalizing" net operating income (which accounts for the operating expenses on the property) by a market derived "capitalization rate".

NESPAK has capitalized estimated rents from the subject property for valuation on Income Capitalization bases and arrived at the following value:

Fair Value of Real Estate by Income Capitalization Approach	
Estimated Rental Income (First Year)	PKR 3,360,600,000
Industry Capitalization Rate (NOI/Sale value)	8%
Total Value of the proposed Real Estate (rounded to nearest hundred million)	
	PKR 42,007,500,000

3.3 REIT Structure

Name of the Proposed Scheme

“Dolmen City REIT” (approval letter appended to section 8.4)

Registered Address of RMC

Arif Habib Centre, 23 M.T. Khan Road, Karachi

Registered address of the Trustee

CDC House, 99-B, Block ‘B’, S.M.C.H.S., Main Shahra -e- Faisal, Karachi

Fund Size

Dolmen City REIT will have fund size of approximately PKR 22.662 Billion inclusive of estimated transfer fee of approximately (PKR 661.52 Million).

Tenure

The Scheme is perpetual. However, the trust may be revoked by the Commission on the occurrence of the events stated under section 10 of the REIT Regulations.

Dolmen City REIT aims to provide steady annual dividends with an additional benefit to investors from capital appreciation of the real estate which shall be passed on to them if REIT sells the real estate or part thereof. Investors may also realize the appreciation in value by selling units in the secondary market through the stock exchange.

Trustee

Central Depository Company of Pakistan Limited (approval letter appended to section 8.4)

Property Manager

Dolmen Private Limited (DPL Management)

Valuer

National Engineering Services Pakistan (Pvt.) Limited ‘NESPAK’ (for a period of two years as per SECP approved Terms of Reference for the valuer)

3.3.1 Acquisition of Real Estate

- A binding purchase agreement will be executed between Central Depository Company of Pakistan Limited, 'CDC' being the Trustee of Dolmen City REIT and International Complex Projects Limited 'ICPL' being the owner of the real estate for the purchase of Harbour Front and Dolmen Mall by the REIT scheme. The sale will be executed through the registry and micro-filming of the Sub-Lease Deed with Sub-Registrar and Photo-Registrar; and the properties will be vested to the Trustee.
- The fund size of the REIT scheme is equivalent to the cost of purchase of this real estate inclusive of transfer fee.
- Units equivalent to [55%] of the fund size will be issued to the nominees of ICPL (the Seller) in the Pre-IPO phase as partial consideration for real estate, subject to approval of SECP. [20%] of the Units will be issued to the shareholders of RMC, subject to approval of SECP. The remaining Units equivalent to [25%] of fund size will be offered in the IPO phase. 75% of the IPO size will be issued through Book Building to Institutions and high net worth individuals, whereas 25% of the IPO will be offered to the general public
- Execution and Novation of tenancy agreements will be undertaken between the existing tenants and the Trustee of the Dolmen City REIT

3.3.2 Key Service Providers

Arif Habib Dolmen REIT Management Limited (the RMC) appoints the following parties with approval of the Commission, wherever required, to provide services to Dolmen City REIT under the REIT Regulations:

- Central Depository Company of Pakistan Limited (CDC) as the Trustee of the REIT scheme;
- NESPAK as the Valuer for the first two years;
- Dolmen (Private) Limited (DPL Management) as the Property Manager;
- JCR-VIS Credit Rating Co. as the Rating firm to provide fund stability rating;
- KPMG as auditors to Dolmen City REIT for the first year; and
- A Unit Registrar with necessary experience and capacity
- The project will be comprehensively insured.

3.4 Investment Policy

REIT Fund

The investment objective is to invest the REIT Fund to purchase the subject real estate as approved by the SECP for inclusion in the REIT scheme, under Rule 6 of the REIT Regulations (approval letter appended to section 8.4).

Surplus Cash

The investment objective of the fund is to invest the surplus cash available to the REIT Scheme e.g. cash available after dividends distribution and capex in the following asset classes:

Asset Category	Minimum Acceptable Rating	Maximum Allocation %age of the total
Bank Deposits	A (Single A)	100%
Government Securities		100%

Deposits with a single banking entity shall not exceed 1/3rd of the available funds.

3.5 Dividend Distribution Policy

Dolmen City REIT proposes to distribute at least 90% of its income as dividend to its unit holders on an annual basis.

3.6 Asset Replacement and Refurbishment

The fixtures and plant & equipment supporting the Shopping Mall and Harbour Front building in Dolmen City REIT shall be replaced or refurbished as and when required or at the end of their useful life as exhibited in Appendix 8.2. Such requirements shall be intimated by the Property Manager to the RMC and shall also be highlighted in the annual project health survey. Under the Property Management Agreement 'PMA', the responsibility of maintaining the facilities common areas, plant & equipment supporting the project and associated revenue expenditures rests with the Property Manager.

The revenue of Dolmen City REIT is adequate to cover foreseeable capital expenditure requirements. However in an event where after distribution of 90% profits, sufficient cash is not available, Bonus Shares will be issued as per REIT Regulation Rule 29(2) and subject to specific SECP approval.

3.7 Termination and Winding up of the REIT Scheme

The Commission may terminate the registration of the REIT Scheme if:

- (a) The Commission determines that such action shall be in the best interest of the Unit Holders;
- (b) The Unit Holders, through a special resolution, request the Commission on reasonable grounds to cancel the registration of the REIT Scheme; and
- (c) The Trustee satisfies the Commission, on reasonable grounds, that continuation of the REIT Scheme is not in the best interest of the Unit Holders
- (d) RMC sells the underlying assets with the approval of SECP and consent of unit holders

3.8 Accounting Policy

International Accounting Standard (IAS 40), Investment Property, as defined in the standard, Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn either rental income or capital appreciation or both (IAS 40.5). Fair value model is used for Financial Reporting purpose as allowed under the standard.

According to IAS 40, Fair Value Method:

- Gains or losses arising from changes in the fair value of investment property must be included in net profit or loss for the period in which it arises. [IAS 40.35]
- Where a property has previously been measured at fair value, it should continue to be measured at fair value until disposal

4. Dolmen City REIT - Critical Success Factors

4.1 Location & Area Profile of the Real Estate

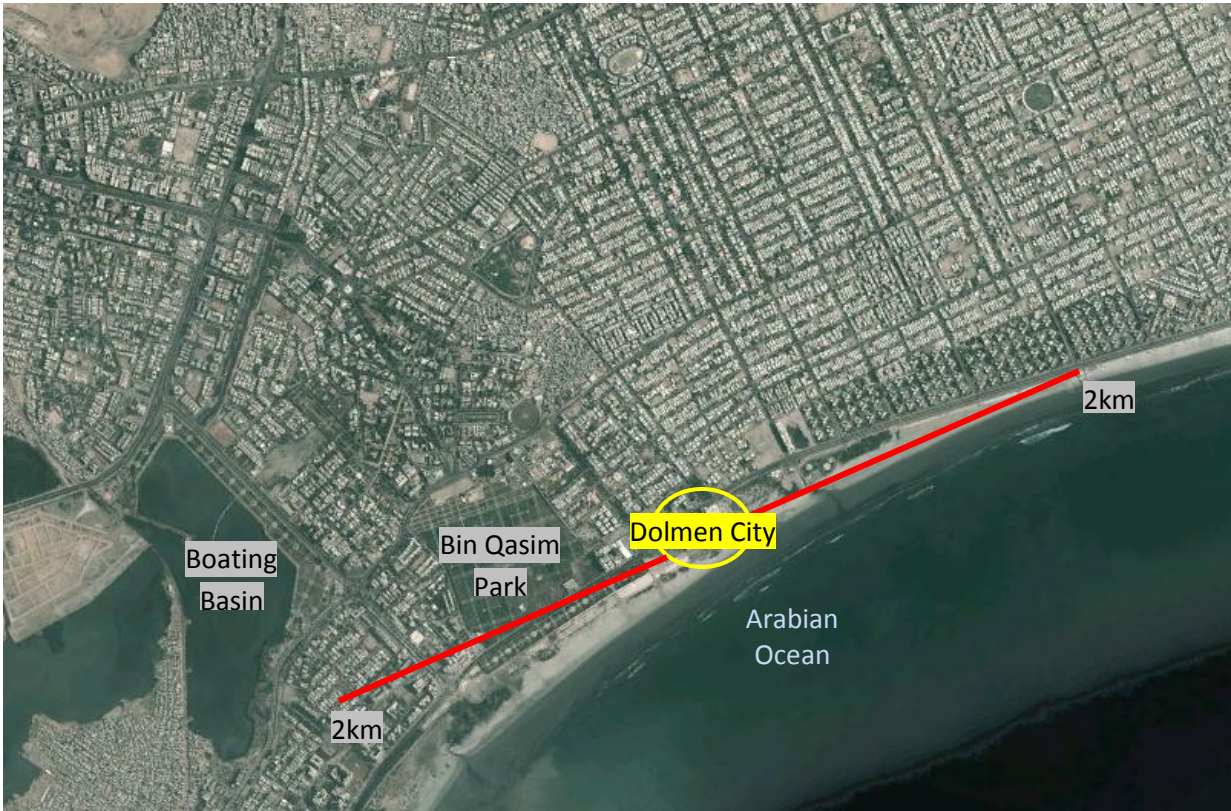
Dolmen City is located at a prime location away from the congestion of the traditional central business district yet close enough for easy access. The development is at the cusp of the affluent Clifton and Defense Housing Authority residential and commercial areas. The traditional business districts of Shahr-e-Faisal, Saddar and Tariq Road are a 20 minute drive away while the financial district of I.I. Chundrigar Road is approximately 15 minutes drive.

Dolmen City is located in Block 4 of Clifton, which is one of the older affluent areas of the city. The municipality of Clifton Cantonment has a population of about [80,000] residents and is located on the south west Karachi bordering Saddar Town and the Port area. The Sea View beach, which is the most popular open air recreational area in Karachi, is adjacent to Dolmen City.





The primary trade area (2km radius) comprises various DHA phases and Clifton, both of which are affluent residential areas at either side to the project.



Area	Status	Jurisdiction	Income
Clifton	Nearly all built up, slowly commercializing; total area of Clifton is estimated at about 3,000 Acres.	Cantonment	High
Defence Housing Authority	Phases 1 - 7 are nearly 85% built. Total DHA Area, including Phase VIII, is about 8,000 Acres	DHA	High
DHA Phase VIII	Phase 8 (50% of entire DHA) is less than 25% developed	DHA	High

4.2 Planning & Development



The developers of Dolmen City have established a reputation for premium commercial and retail property development over the last 30 years. For commercial real estate to be successful a perfect mix of timely execution, quality development, optimal space utilization and attractive building features are integral to the planning stage. Harbour Front and Dolmen Mall perfectly combine these essential ingredients of success. Its architects are Arshad Shahid Abdulla (Pvt.) Limited, contractors are Paragon Constructors (Pvt.) Limited and property managers are Dolmen Private Limited (DPL Management).

4.3 Multiple Options to customers/visitors

Dolmen City offers multiple options to its visitors and customers ranging from retail and leisure, to business. The retail space is designed as a lifestyle centre offering the best of retail and a multipurpose leisure destination including restaurants, kids fun areas, brand activation and entertainment in the retail atriums, hypermarket and a distinctive design ambience conducive to casual browsing. The Harbour front offers a signature address for office space in Karachi. Customers benefit from adequate parking in the two basement levels including valet parking, easy access to the mall atriums, high speed elevators, state of the art security and building management systems. The Mall has 130 retail outlets, a multi-level departmental store, and a food court that accommodates nearly 1,200 customers.

4.4 High Profile Tenants

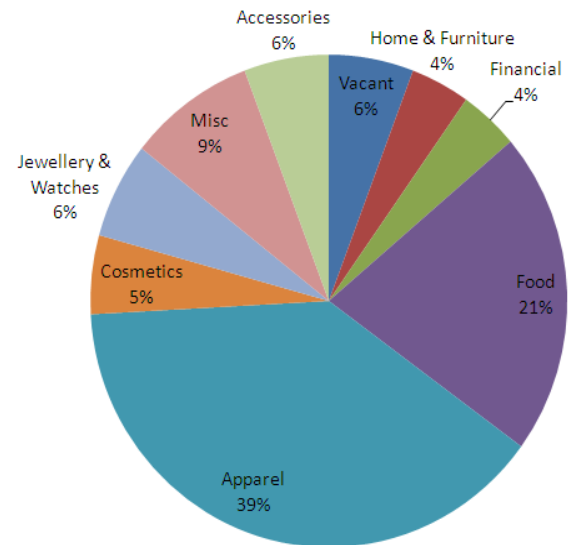
Existing occupancy of the subject real estate is held by credible tenants (mostly international brands and multinational corporations) generating steady cash flow stream.

Dolmen Mall

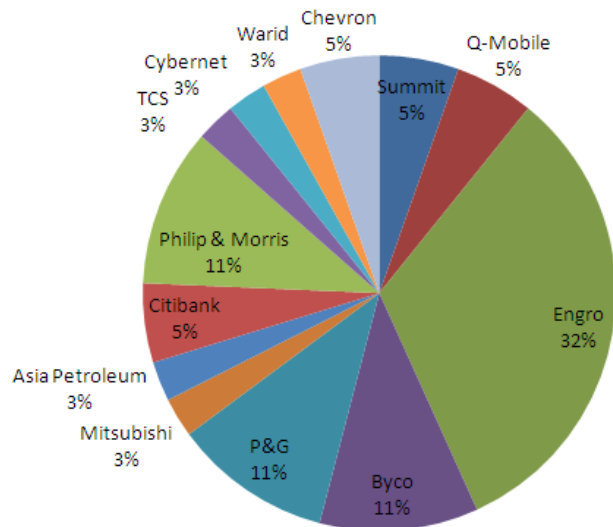
Anchored by Hyperstar and Debenhams, Dolmen Mall Clifton has a strong mix of local and international brands including Mango, Next, Nike, Mothercare, Khadi, Nine West, Timberland, Toni & Guy and Charles & Keith.

- Total Outlets: 189 including vacant stores
- Current Occupancy: [94]%
- Profile:
As seen in the adjacent chart, the highest occupancy by tenant retail category is apparel (39%) while food (21%) is the runner-up. Other categories represent an even tenancy mix. Approximately 6% of the mall is currently vacant, which essentially comprises of an anchor store. Negotiations are underway with a leading international branch and the space is expected to be occupied in a short period. The mall provides a strong eco-network as it accommodates all top local and international brands currently operating in the city.

Mall Tenancy Profile



Harbour Front Tenancy Profile



The Harbour Front

The current tenant portfolio of The Harbour Front boasts leading companies such as Engro Corp, Phillip Morris, Mitsubishi Corp., Procter & Gamble, City Bank, Q-Mobile, Chevron, Asia Petroleum and Byco.

- Total: 17 lettable floors
- Current Occupancy: 100%
- Profile:
The Harbour Front enjoys 100% occupancy from some of the top companies operating in the country. The largest single occupant is Engro with 32% while Philip&Morris, P&G and Byco occupy an equal share of 11% each.
- Unique security features and extensive screening make the building the top contender for multinational companies and those employing expats.

4.5 Attractive valuation

The prevalent average yield for real estate investment in Pakistan is in the range of 4% to 6% of the property value. Dolmen City REIT will acquire the real estate at half the market value which results in an attractive yield of more than 9% for the Unit holders.

Inclusion of this landmark real estate project in a REIT Scheme will generate investor interest and would be a trendsetter for Rental REIT Schemes.



4.6 Tenant Retention / Maintenance Strategy

The property manager has been operating in the local retail real estate market for over 30 years and has developed long-term relationships with local and international retailers. This relationship is constantly reinforced with regular meetings and detailed discussions with regards to outlet performance, marketing plans and future real estate requirements.

In addition to a continuous customer footfall tracking process, customer feedback is regularly obtained to develop an understanding of property performance and demand inclination. Regular brand activation events and promotional activities take place at the mall to increase customer footfall.

A highly qualified maintenance team is responsible for overall operation and maintenance of the facility. Using an automated system to monitor the premises, maintenance is carried out at regular intervals to ensure that asset is impeccably maintained.

4.7 Experienced Property Manager

Dolmen Private Limited (DPL Management)

Dolmen Private Limited (DPL Management) has deployed the best property management solutions available in the country. The company enjoys the goodwill of being the present property manager of Dolmen City project and provides a complete range of project management solutions to address client requirements from leasing and facilities management to project marketing.

Professional Services

- **Facilities Management**

Complete facility management of all back and front end services pertaining to operation of the building including housekeeping, security, operations, maintenance and IT.

- **Leasing**

Tenant prospecting, designing retail tenancy mix, lease/contract management, legal affairs and casual leasing.

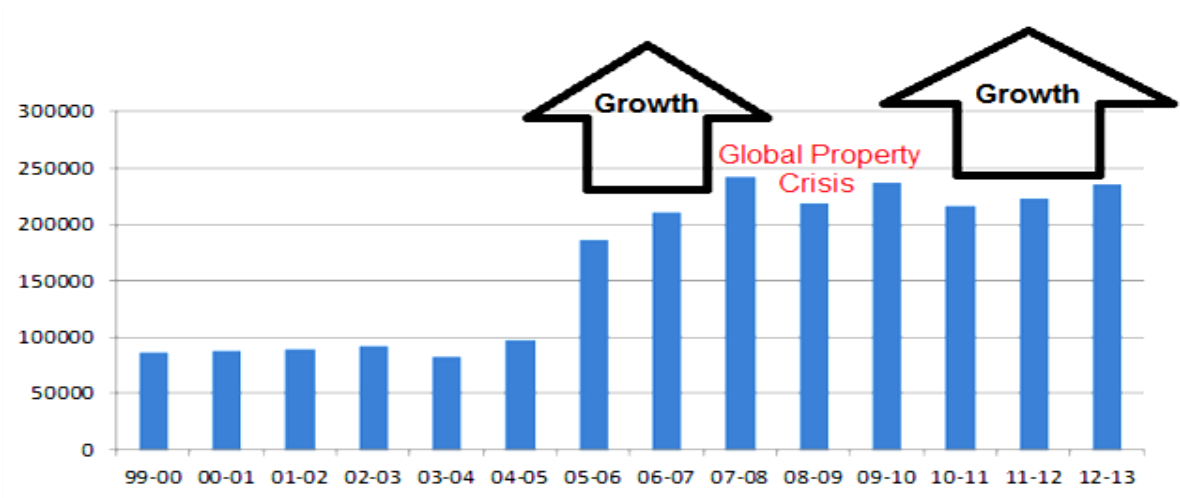
- **Marketing**

The promotion function of the property, aims to increase the profile of the mall and increase footfall levels via media marketing, events, promotions and PR generating activities.

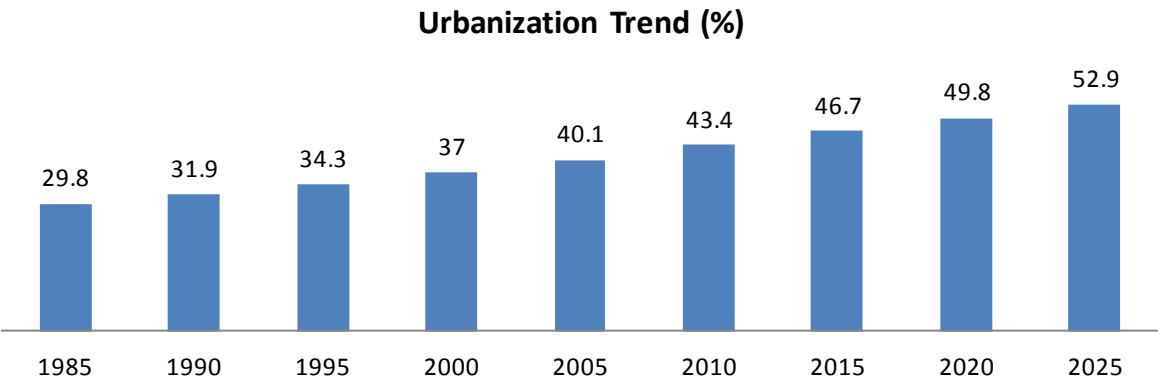
The company has an illustrious portfolio of clientele and is also the property manager of Dolmen Mall Tariq Road, Karachi and Dolmen Mall Hyderi, Karachi. Dolmen Private Limited (DPL Management) has an extensive team of professionals and internal collaborations with various sub-contractors to ensure quality execution and business continuity while meeting international standards of property management.

5. Market Analysis

Pakistan’s real estate market has consistently proven itself to be an inflation beating sector with increase in property values across the board despite economic fluctuations and their subsequent effect on traditional sectors. As seen in the chart below, the construction sector has generally shown an upward trend since 2003-4 onwards despite economic or political oscillation with a slight dip in 08/09 due to the global property market crash.

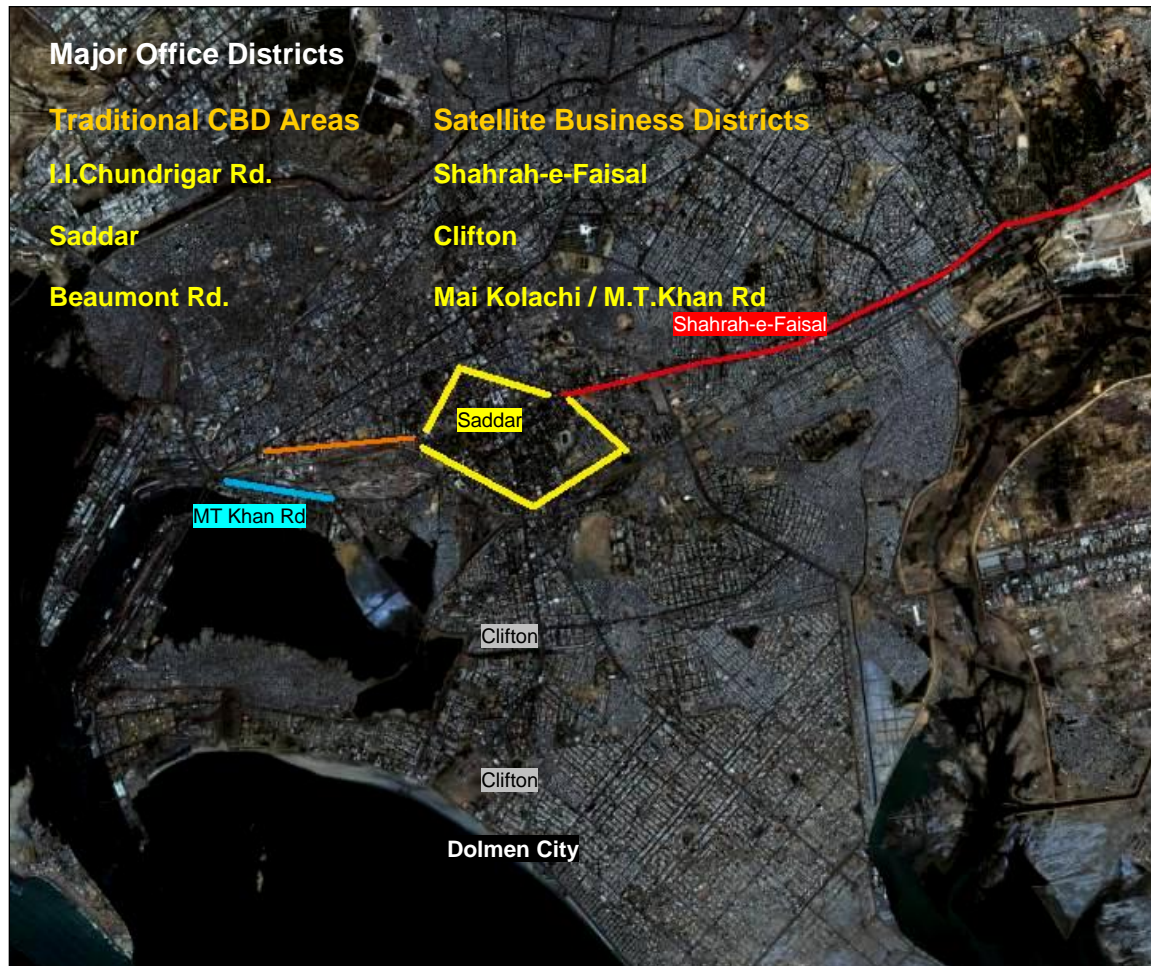


The general view of real estate as a hedge against inflation and rupee depreciation coupled with the trend towards urbanization creates a real demand for real estate. At present 34% of Pakistan’s population resides in urban areas and by year 2025 it is expected that about 50% of the country’s population will be residing in cities, which has an impact on property demand and subsequently pricing across the board, i.e. housing, retail and commercial segments.



5.1 Real Estate in Karachi

5.2 Commercial Office Space in Karachi



The traditional CBD area for Karachi is predominantly Saddar and I.I.Chundrigar Road. These areas are now nearing saturation and office space has moved to surrounding areas.

The office space supply in Karachi thus saw decentralization with certain outlying areas emerging as satellite office business districts. Lack of quality new supply and severe traffic congestion in the traditional CBD has led to popularity of the secondary office areas such as M.T. Khan Road and Clifton.

Quality office space started moving closer to relatively higher income populations (Clifton and DHA) which have seen generally better quality developments.

Over recent years the trend of office space which was traditionally purchased has moved to rented accommodation in well managed and more secure buildings. The higher competition as new supply entered the market has resulted in slow movement and low take up in poorly designed buildings. In addition, the rising price of commercial real estate has created a demand for smaller offices with optimal space utilization.

Security is now a major concern for office space occupants particularly for multinational companies and large local companies. In terms of basic security requirements, very few buildings in Karachi are cleared for occupancy by security screening of multinational companies with established developments such as Harbour Front at Dolmen City taking a major slice of the market remaining unchallenged.

Recent developments in the area such as Bahria IV (at Gizri) in a bid to win tenants are offering highly negotiable rental terms to compete for survival.

5.3 Enclosed Retail Space in Karachi



Enclosed retail in Karachi is currently in the evolving stage with most malls located in proximity to high density or high income residential areas (the area boxed in red represents the traditional retail CBD).

The older malls around Saddar and Tariq Road were strategically located in centralized retail hotspots with a 360 degree catchment. More recent quality supply however is located in relation to the income stratification of the immediate catchments. The concept of commuting for shopping is ebbing away due to the general traffic congestion in the city.

In response to this, it would be prudent for mall developers to offer enclosed retail at multiple locations, however only Dolmen has reacted to this sentiment with multiple sites at Clifton, Tariq road and Hyderi (not depicted in this image)

Having responded to market changes; Dolmen is also the only mall developer / operator to have evolved in terms of quality with the first and largest international standard enclosed retail development in Pakistan offered as part of this REIT scheme. Dolmen Mall has also retained the top spot in terms of performance and occupancy accommodating the top brands in Karachi as detailed in the tenancy profile section of this document.

Independent to this exception, the retail market generally has displayed restrained growth with very few new brands entering the city. This is reflected in the development of malls which has virtually slowed to a standstill and also in terms of the performance of new supply. Case in point are recent entrants to enclosed retail located close to Dolmen City, namely Emerald Towers and Ocean Towers.

6. SWOT Analysis and Critical Risk Factors

6.1 SWOT Analysis

STRENGTHS

- Prominent location of the real estate
- Tenants of high credibility profiles
- Experienced property management resource
- The property is fully operational and rented out
- Attractive and mandatory dividend payouts
- Low business, financial and management risk (dedicated single line business with zero financial leverage) and hedged against inflation
- Tax efficient returns
- Shariah Compliant Investment
- Low expected volatility in NAV
- Liquidity thorough KSE

WEAKNESSES

- No precedence and lack of public awareness since the REIT structure is new to Pakistan's market
- Based on the economic cycle real estate prices may remain stagnant for a considerable period
- Unit prices may be sensitive to demand for Other High-Yield Assets.

OPPORTUNITIES

- Can be the market innovators attracting post launch price premium since no such product is currently offered in Pakistan
- International Listing of REIT for increased liquidity
- Will provide opportunities for wealth management divisions of financial institutions
- Substitute for direct real estate investments in the longer term

THREATS

- Slow down in economic activities effecting anticipated rent collection from tenants.
- Changes in Government regulations / taxes
- Future competition from new developments

6.2 Risks and Mitigants

Market Risk

The Fund's NAV may react to the stock market movements. The investor could experience fluctuation in the unit trading price in response to factors such as economic and political developments, changes in interest rates and perceived trends in the stock and real estate market prices.

Mitigant: *Real Estate being the underlying asset, the volatility in NAV and resultantly in Unit prices is likely to be low, thereby giving reasonable assurance to investors of a steady return.*

Credit Risk

Credit risk is the risk of loss arising from default by a creditor or counterparty. In this case, default may occur due to the tenants' non-payment of rent.

Mitigant: *Existing long-term tenancy agreements will be novated to Dolmen City REIT for the subject property giving the Trustee the power to enforce eviction in case of non-payment of rent. Furthermore, all tenants of Harbour Front and the Shopping Mall are well-reputed, international, multinational and local brands/corporate, capable of honouring their obligations towards rental payments of the property.*

Liquidity Risk

By investing in the REIT units, investors assume the risk of not being able to sell REIT units without adversely affecting the price of the instrument.

Mitigant: *Listing on the Karachi Stock Exchange provides the investor a chance to sell the units at a fair value.*

Economic Risk

Growth in the real estate sector is largely dependent upon the economic conditions prevailing in the country. An economic slowdown in the country may adversely affect the growth and performance of the real estate.

Mitigant: *Pakistan's economy has rebounded from recent downturns and macro indicators are positive calling for a healthy recovery. Similar trends are expected in real estate, which usually has cycles with the present scenario being considered as a trough.*

Country or Political Risk

Country or Political risk is a significant risk considered by the foreign investors. It is the uncertainty of returns by the possibility of a major change in the political or economic environment of the country such as:

- Breakdown of law and order, war, disaster
- Any governmental actions, legislative changes or court orders restraining payment of rents or dividends or sale / transfer of property or imposition of taxes
- Expropriation of assets

Mitigant: *Pakistan's government has shown reasonable resilience to threats arising from conflict or political pressures and is expected to keep Pakistan's asset safe. In case of transfer of power, the shift is expected to be smooth without causing any interruption in the process.*

Substantial Discount Risk

The Fund's market price may be valued at a substantial discount to its NAV

Mitigant: *Due to numerous factors ranging from the opportunity available to investors of closed end funds to book direct exposures in equity stocks which form part of the fund portfolio to the lack of demand of such funds, there is usually a trading discount on the fund's net asset value. However, historic global data suggests that on average, REITs have traded roughly at parity relative to asset value/NAV over the last twenty plus years.*

Unlike prevailing closed end funds listed on the stock exchange, REIT offers exposure to an exclusive asset class (real estate), which otherwise is not available to investors through the stock exchange. Dolmen City REIT offers one of its kind investment opportunity and it is expected that the market price will trail its NAV.

Occupancy Risk

Risk of occupancy levels dropping in the future

Mitigant: *There is a high switching cost involved for tenants to relocate. Moreover, Dolmen City carries strong brand image as the premier mall in Karachi with widespread interest in potential tenancy in the pipeline.*

Natural Calamity Risk

The risk that an earthquake, fire or any other natural disaster may affect the project

Mitigant: *The building structure of Dolmen City project is earthquake resistant to UBC 2B level (moderate to severe seismic risk). It complies with all structural standards and the project real estate assets are covered by comprehensive insurance.*

6.3 Investment Rationale

REITs provide access to quality real estate (new asset class) at low risk. It is generally challenging for small investors to access real estate individually due to the large capital required, however REITs allow investors to buy and sell a portion of real estate exposure in line with their financial capacity. Some key investment considerations are:

Unique Investment Opportunity

The real estate project is fully operational and the lettable space is occupied. Majority of the existing tenancy agreements have a 10% annual rent escalation clause. Dividend Yield on these Units is expected to increase from 9.33% in the first year to 22.10% in the tenth year. Average Dividend Yield for the first ten years of operations is expected to be 14.91%. Additionally, the total return from the REIT instrument will be augmented by a capital appreciation component. The Subject real estate is conservatively projected to grow in value by 5% per annum. This appreciation will be reflected in the Net Asset Value (NAV) and can be realized by selling unit holding in the secondary market.

Debt Free Investment

REITs are wholly equity financed and borrowing is not permitted under the regulations. Hence, The Dolmen City REIT has a debt free structure and free from related cash flow distress and default risks.

Favourable Dividend Pay-out Policy

The business plan envisages distributing at least 90% of its profits as dividends to the unit holders. High payout reduces the risk of management for investors.

Hedge against Inflation and declining Interest rates

The annual escalation in rental income in REITs hedges the investment against inflation and decline in the interest rates.

Liquidity

The instrument will be listed at the KSE which provides investors the option to exit anytime. Moreover, REIT units are priced by the stock market each day and readily respond to the changes in market sentiments.

Diversification

Diversification aims to reduce portfolio volatility for investors. Adding REITs to an investment portfolio reduces risk since REITs have little correlation with other assets, including stocks and bonds.

Sharia Compliant Investment

When comparing REITs to conventional debt instruments, an important factor to be considered is that Rental REITs are Sharia compliant as opposed to traditional debt instruments. Hence it provides investment option that complies to the faith/belief of a large investor group.

Comparison with other instruments

Exposure on plain vanilla debt issues is significantly different from exposure in REITs. A novel feature in Rental REITs is the avoidance of double taxation which is a hall mark of conventional debt issues. In a REIT taxes are applied only up to the extent of withholding tax and the resultant yield is shielded from all other taxes, thereby increasing effective yield of the investor. Dividend income on investment in Units of REIT Scheme has a withholding tax of 10% as full and final settlement, whereas, bond coupon has both corporate tax and withholding tax, which means despite having the same yield as debt instruments, a REIT would have a higher yield net of all taxes.

Comparison with other Instruments	Year 1	Year 2	Year 3	Year 5	Year 10
Dolmen City REIT (MADY)*	9.33%	9.78%	10.27%	11.36%	14.91%
Bond Equivalent Yield of REIT (MADY)*	12.72%	13.34%	14.01%	15.49%	20.34%
Special Savings Certificates 1 Year	11.60%				
Special Savings Certificates 2 Years		11.60%			
Special Savings Certificates 3 Years			13.40%		
Treasury Bill 1 Year	9.49%				
Pakistan Investment Bond 3 Years			11.25%		
Pakistan Investment Bond 5 Years				11.50%	
Pakistan Investment Bond 10 Years					12.00%
KIBOR 1 Year	9.85%				
KIBOR 2 Years		10.61%			
KIBOR 3 Years			10.88%		

* Moving Average Dividend Yield

7. Financial Projections

7.1 Key Assumptions

7.1.1 Regulatory Tax Assumptions

- **Deduction of Withholding taxes**

RMC is required to withhold tax on distribution, currently at a rate of **10%** for filers and **15%** for non-filers.

- **Capital Gains Tax**

Sales of REIT Units are subject to capital gains tax as per the Income Tax Ordinance, 2001.

- **Transfer Fees**

Property transfer taxes (on purchase of real estate) shall be applicable on the transaction value, subject to the provisions promulgated for REITs by the Board of Revenue, Government of Sindh. These include Capital Value Tax (CVT), Registration Fee, Stamp Duty and Advance Tax on immovable Property.

7.1.2 Projection Assumptions

- **Occupancy of Let able Area**

Financial projections have been based on a 100% occupancy assumption. Scenario analysis in section 7.3 shows how occupancy changes may affect dividend yields.

- **Growth in Market Value of Land & Building**

The market value of the subject real estate is assumed to grow by **5%** per annum.

- **Pay-out Ratio**

Dividend Pay-out ratio is kept at **100%** for financial projections. Scenario analysis in section 7.3 shows how payout changes may affect dividend yields.

- **Return on Surplus Cash**

Return on surplus cash is assumed at **6%** for financial projections.

7.1.3 Revenue Assumption

- Rent Revenue**

Let able Area Summary		Rent Revenue (Projected for Year 1 as per existing terms)
	Area	Revenue (PKR)
Shopping Mall - Lower Ground Floor	5,585 sq. ft.	34,864,008
Shopping Mall - Ground Floor	187,347 sq. ft.	490,923,572
Shopping Mall - First Floor	180,156 sq. ft.	705,317,274
Shopping Mall - Second Floor	180,497 sq. ft.	512,566,141
Harbour Front Office Building - Levels 1 – 19	256,844 sq. ft.	731,373,882
Total	810,129 sq. ft.	2,475,044,876

Rent Revenue is calculated at **100%** Occupancy. Rental income for areas which have not yet been rented / leased out (currently 6% of the total leasable space) has been estimated based on similar size of shops, location, and nature of business already rented / leased out.

- Annual Rental Escalation**

Revenue from rent is projected as per actual tenancy agreements during the lease term and subsequently projected to grow at the escalation rate in the agreement, assuming the tenancy is continued or renewed.

Weighted average increase in rent as per the existing tenancy agreements is **10%** per annum.

- Ancillary Income**

Ancillary income is derived from additional commercial activities in the mall including casual renting of space to kiosks, branding, exhibitions and event. Such activities not only generate income but also increase footfall with added shopper potential across the mall.

Ancillary income for the period from 1 January 2015 to 31 December 2015 (1 year) has been determined on the basis of trend extrapolated during the last twelve months (i.e.; from October 2013 till November 2014) with a projected annual increase of 10%.

7.1.4 Cost Assumptions

Total cost of the Rental REIT Scheme has been bifurcated into Preliminary and Recurring Expenses:

- Preliminary Expenses**

The initial expenses incurred on the establishment, registration, set-up and fund raising of the REIT scheme inclusive of all the commissions are estimated to be PKR 208,576,936/-.

The details of these preliminary expenses are as follows:

Preliminary REIT Expenses

PKR

Underwriters Fee - General Public	0.50%	% of IPO amount (25%)	7,081,875
Underwriters Fee - Book Building including Book Runner Fee	0.50%	% of IPO amount (75%)	21,245,625
Take-up Commission	0.50%	% of Take-up amount	28,327,500
Commission to Bankers to the Offer	0.25%	% of IPO amount	14,163,750
Bankers to the Offer – Out of Pocket	PKR 800,000	estimated, 50k per bank + 300k UBL e-IPO	800,000
Brokers' Commission	0.50%	% of IPO amount	28,327,500
KSE Listing Fees (initial)	Maximum	% of Fund Size (reg32 - 1)	2,500,000
KSE Listing Fees (Annual)(Above PKR10bn)	575,000+.0003%	% of Fund Size (reg32 - 3)	612,986
KSE Services Fee	PKR 50,000	fixed (reg32)	50,000
KSE Book Building Software charges	PKR 500,000	fixed	500,000
Lead Financial Advisor and Arranger Fee	1.00%	% of IPO amount	56,655,000
Balloting Agent	PKR 250,000	Negotiable	250,000
Marketing & Printing Expenses	0.12%	% of IPO amount	6,986,000
SECP REIT Registration Fee	PKR 1,000,000	Annexure (V) of REIT Reg.	1,000,000
CDC - Fresh Issue Fees	0.16%	No. of Units	36,259,200
CDC - Annual Listing Fees	Lump sum	CDC schedule of charges	67,500
SECP IPO Application Processing Fee	PKR 200,000	fixed	200,000
Shariah Advisory	PKR 350,000	Negotiable (Initial Review)	350,000
Legal Advisory and Documentation	PKR 1,500,000	Negotiable	1,500,000
Trustee's Legal Advisory for REIT	PKR 300,000	actual, SECP R6 letter	300,000
Rating Agency Fee	PKR 800,000	Negotiable	800,000
Valuer Fee	PKR 600,000	First valuation Negotiable	600,000

Total**208,576,936**

- **Recurring Expense**

The annual recurring expenses of the REIT Scheme are detailed as follows:

REIT - Annual Expense		
Monitoring Fees payable to SECP	0.10%	% of initial REIT Fund
RMC Fees	3.00%	Net Operating Income
Trustee Fees	0.60%	1/5th RMC Fees
Property Manager Fee	6.00%	% of Gross Rental Income
Ancillary Income Collection Fee	15.00%	% of Ancillary Income
Annual Property Tax	25%	% of Average Rental Value as per Sindh UIP tax act 1958
Insurance Expense	0.35%	% of sum insured
Overhead absorption of Common Area Maintenance 'CAM' assumed on vacant properties	84.00	PKR Current weighted average rate per vacant sq. ft./mth
Marketing Expense	2.00%	% of Gross Rental Income

Other Recurring Expenses (PKR) – with assumed growth of 10% per annum		
Auditor Fees	1,000,000	ICPL's existing Audit fee
Shariah Review Fee	200,000	
Legal retainer Fee	500,000	
KSE - Listing Fees (Renewal)	612,985	reg32
CDC - (Renewal)	67,500	CDC schedule of fee
Rating Agency Fee - Updating	800,000	
Annual Project Health Survey Fee	1,500,000	
Valuer – Updating	800,000	PKR 0.2M per quarterly report
Total	5,480,486	

Insurance Expense

The real estate shall be comprehensively covered by various policies. The sum insured on the property is assumed at 70% (PKR 15.4 Billion) of the property value of PKR 22 Billion, to exclude the land and plinth foundation. The following insurance policies shall be executed:

Type	Assumed Cover annual rate as % of sum insured
Fire, Glass, Machine Break Down and Allied	0.23%
Terrorism Cover	0.12%
	0.35%

The gross insurance premium shall be subject to **1%** Federal Insurance Fee and **16%** sales tax on services. Insurance expense shall grow in line with property capital appreciation of **5%** per annum.

Common Area Maintenance 'CAM'

The Property Manager shall have the right to recover monthly Common Areas Management Expenses from the tenants including but not limited to charges for the chilled water facility, utilities and related expenses incurred for providing such services.

The Trust shall pay the then prevailing CAM rates for vacant and occupied portions of the property.

The current CAM rates are as follows:

Type	PKR Current weighted average rate per sq. ft./mth
Chilled Water Facility – Mall (68% of the total Leasable Area)	30
Chilled Water Facility – Harbour Front (32% of the total Leasable Area)	20
Common Area Maintenance – Mall (68% of the total Leasable Area)	70
Common Area Maintenance – Harbour Front (32% of the total Leasable Area)	30
Weighted Average Rate	84

7.2 Financial Statements

7.2.1 REIT Income Statement (PKR)

REIT - Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Gross Rental Revenue	2,475,044,876	2,701,665,094	2,957,882,557	3,240,050,899	3,550,292,200	5,631,063,634
Ancillary Income	85,000,000	93,500,000	102,850,000	113,135,000	124,448,500	200,425,554
Monitoring Fees	22,662,000	22,662,000	22,662,000	22,662,000	22,662,000	22,662,000
Property Manager Fees	148,502,693	162,099,906	177,472,953	194,403,054	213,017,532	337,863,818
Ancillary Income C.Fees	12,750,000	14,025,000	15,427,500	16,970,250	18,667,275	30,063,833
CAM Expense on Vacancies	-	-	-	-	-	-
Insurance Expense	63,063,000	66,216,150	69,526,958	73,003,305	76,653,471	97,831,411
Property Tax	21,368,876	21,368,876	21,368,876	21,368,876	21,368,876	21,368,876
Other Recurring Expense	5,480,486	6,028,535	6,631,388	7,294,527	8,023,980	12,922,699
Marketing Expense	49,500,898	54,033,302	59,157,651	64,801,018	71,005,844	112,621,273
NOI	2,236,716,925	2,448,731,326	2,688,485,232	2,952,682,869	3,243,341,724	5,196,155,278
RMC Fees	67,101,508	73,461,940	80,654,557	88,580,486	97,300,252	155,884,658
Trustee Fees	13,420,302	14,692,388	16,130,911	17,716,097	19,460,050	31,176,932
Preliminary Expense	41,715,387	41,715,387	41,715,387	41,715,387	41,715,387	-
Fair Value Adjustment	1,133,076,008	1,189,729,809	1,249,216,299	1,311,677,114	1,377,260,970	1,757,772,783
Return on Surplus Cash	28,790	28,790	28,790	28,790	28,790	28,790
Net Income	3,247,584,526	3,508,620,210	3,799,229,465	4,116,376,802	4,462,155,794	6,766,895,260
Dividend	2,114,508,518	2,318,890,401	2,550,013,166	2,804,699,688	3,084,894,824	5,009,122,478
Retained Earnings	1,133,076,008	1,189,729,809	1,249,216,299	1,311,677,114	1,377,260,970	1,757,772,783

7.2.2 REIT Balance Sheet (PKR)

REIT - Balance Sheet	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Assets						
Cash	479,832	479,832	479,832	479,832	479,832	479,832
Land & Building	22,661,520,168	22,661,520,168	22,661,520,168	22,661,520,168	22,661,520,168	22,661,520,168
Preliminary Expense	166,861,549	125,146,162	83,430,774	41,715,387	-	-
Fair Value Adjustment - Land and Building	1,133,076,008	2,322,805,817	3,572,022,116	4,883,699,231	6,260,960,201	14,251,708,268
Total Assets	23,961,937,557	25,109,951,979	26,317,452,891	27,587,414,618	28,922,960,201	36,913,708,268
Liabilities						
Payable to RMC	166,861,549	125,146,162	83,430,774	41,715,387	-	-
Un earned income	-	-	-	-	-	-
Total Liabilities	166,861,549	125,146,162	83,430,774	41,715,387	-	-
Equities						
Paid-up Capital	22,662,000,000	22,662,000,000	22,662,000,000	22,662,000,000	22,662,000,000	22,662,000,000
Retained Earnings	1,133,076,008	2,322,805,817	3,572,022,116	4,883,699,231	6,260,960,201	14,251,708,268
Total Equity	23,795,076,008	24,984,805,817	26,234,022,116	27,545,699,231	28,922,960,201	36,913,708,268
Total Liabilities & Equities	23,961,937,557	25,109,951,979	26,317,452,891	27,587,414,618	28,922,960,201	36,913,708,268
Net Asset Value	23,795,076,008	24,984,805,817	26,234,022,116	27,545,699,231	28,922,960,201	36,913,708,268

7.2.3 Cash flow Statement (PKR)

REIT - Cashflows	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Net Income	3,247,584,526	3,508,620,210	3,799,229,465	4,116,376,802	4,462,155,794	6,766,895,260
Non-cash preliminary Expense	41,715,387	41,715,387	41,715,387	41,715,387	41,715,387	-
Unrealized (Gain)/Loss	(1,133,076,008)	(1,189,729,809)	(1,249,216,299)	(1,311,677,114)	(1,377,260,970)	(1,757,772,783)
Funds Flow from Operations 'FFO'	2,156,223,905	2,360,605,788	2,591,728,553	2,846,415,075	3,126,610,211	5,009,122,478
Land	(22,661,520,168)	-	-	-	-	-
Building	-	-	-	-	-	-
Dividend Paid	(2,114,508,518)	(2,318,890,401)	(2,550,013,166)	(2,804,699,688)	(3,084,894,824)	(5,009,122,478)
Payment of Advances for Pexp.	(41,715,387)	(41,715,387)	(41,715,387)	(41,715,387)	(41,715,387)	-
Cash flow from unearned income	-	-	-	-	-	-
Paidup Capital	22,662,000,000	-	-	-	-	-
Chg in Cash	479,832	0	0	0	0	-
Cash Beginning	-	479,832	479,832	479,832	479,832	479,832
Cash End	479,832	479,832	479,832	479,832	479,832	479,832

7.2.4 Funds Flow Statement (PKR)

REIT - Fund Flow	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Inflows							
Gross Rental Revenue	-	2,475,044,876	2,701,665,094	2,957,882,557	3,240,050,899	3,550,292,200	5,631,063,634
Ancillary Income	-	85,000,000	93,500,000	102,850,000	113,135,000	124,448,500	200,425,554
Advance rent	-	-	-	-	-	-	-
Return on Deposit	-	28,790	28,790	28,790	28,790	28,790	28,790
Liability for Prelm. Expense	208,576,936	-	-	-	-	-	-
Chg in Paid up capital	22,662,000,000	-	-	-	-	-	-
	22,870,576,936	2,560,073,666	2,795,193,884	3,060,761,347	3,353,214,688	3,674,769,490	5,831,517,978
Outflows							
Monitoring Fees	-	(22,662,000)	(22,662,000)	(22,662,000)	(22,662,000)	(22,662,000)	(22,662,000)
Property Manager Fees	-	(148,502,693)	(162,099,906)	(177,472,953)	(194,403,054)	(213,017,532)	(337,863,818)
Ancillary Income C.Fees	-	(12,750,000)	(14,025,000)	(15,427,500)	(16,970,250)	(18,667,275)	(30,063,833)
CAM Expense on Vacancies	-	-	-	-	-	-	-
Insurance Expense	-	(63,063,000)	(66,216,150)	(69,526,958)	(73,003,305)	(76,653,471)	(97,831,411)
Other Recurring Expense	-	(5,480,486)	(6,028,535)	(6,631,388)	(7,294,527)	(8,023,980)	(12,922,699)
Marketing Expense	-	(49,500,898)	(54,033,302)	(59,157,651)	(64,801,018)	(71,005,844)	(112,621,273)
Payment of Advances for Pexp.	-	(41,715,387)	(41,715,387)	(41,715,387)	(41,715,387)	(41,715,387)	-
RMC Fees	-	(67,101,508)	(73,461,940)	(80,654,557)	(88,580,486)	(97,300,252)	(155,884,658)
Trustee Fees	-	(13,420,302)	(14,692,388)	(16,130,911)	(17,716,097)	(19,460,050)	(31,176,932)
Property Taxes	-	(21,368,876)	(21,368,876)	(21,368,876)	(21,368,876)	(21,368,876)	(21,368,876)
Cash Available for Distribution 'CAD'		2,114,508,518	2,318,890,401	2,550,013,166	2,804,699,688	3,084,894,824	5,009,122,478
Dividends Paid	-	(2,114,508,518)	(2,318,890,401)	(2,550,013,166)	(2,804,699,688)	(3,084,894,824)	(5,009,122,478)
Preliminary Expense	(208,576,936)	-	-	-	-	-	-
Land	(22,661,520,168)	-	-	-	-	-	-
Building	-	-	-	-	-	-	-
	(22,870,097,104)	-	0	-	-	-	-
Change in Cash	479,832	-	0	-	-	-	-
Beginning Cash	-	479,832	479,832	479,832	479,832	479,832	479,832
Ending Cash	479,832	479,832	479,832	479,832	479,832	479,832	479,832

7.3 Financial Analysis

7.3.1 Dividend based Investment Analysis

REIT - IRR Analysis	Year 0	Year 1	Year 2	Year 3	Year 10
Discount Rate 15.0%					
Terminal Value Growth Rate 6.0%					
Initial Investment	(22,662,000,000)				
Cash Dividends		2,114,508,518	2,318,890,401	2,550,013,166	5,009,122,478
Terminal Value of Dividends					61,222,608,059
Net Cashflow to Investors	(22,662,000,000)	2,114,508,518	2,318,890,401	2,550,013,166	66,231,730,537
Present Values	(22,662,000,000)	1,838,703,059	1,753,414,292	1,676,675,049	16,371,470,849
NPV 7,670,603,603					
IRR 19.65%					
Net Dividend Yield		9.33%	10.23%	11.25%	22.10%

Total Return Analysis:

Return on real estate investment has two components: 1) Cash/Dividend Yield, and 2) Capital Appreciation. The major component of the total return is capital appreciation which is in the range of 15% to 20% per annum in Pakistan; however we have conservatively assumed appreciation in the real estate value of 5% per annum.

An estimate of total return to the unit holders of Dolmen City REIT is hereunder:

Estimated Total Return	Year 1	Year 10	10 Years Average
Dividend Yield	9.33%	22.10%	14.91%
Capital Appreciation	5%	5%	5%
Total Return	14.33%	27.10%	19.91%

Capital market investors use NPV analysis as a measure of investment appraisal; however it is not a conventional method for real estate investment appraisal. Our NPV and IRR analysis are based on discounting the expected dividend based cash flows from the REIT scheme.

Net Present Value (NPV)

The discount rate assumed for NPV calculation is 15% with the project's capital structure solely based on equity finance. The Project NPV accounts to PKR 7.67 Billion where PKR 22.66 Billion is the initial outflow, which results in a solid investment case.

Internal Rate of Return:

The financial analysis above determines the project's IRR to be 19.65%. The IRR is exceeding the cost of capital of 15% which signifies that a surplus will remain after paying for the capital which will be accrued to Dolmen City REIT Scheme's shareholders.

Dividend Yield:

The Dolmen City REIT proposes to distribute minimum 90% of the total accounting income. The dividend yield on 100% distribution for the first year stands at 9.33% which grows to 22.10% in the tenth year and the average Dividend Yield for the first 10 years of the project accounts to 14.91%.

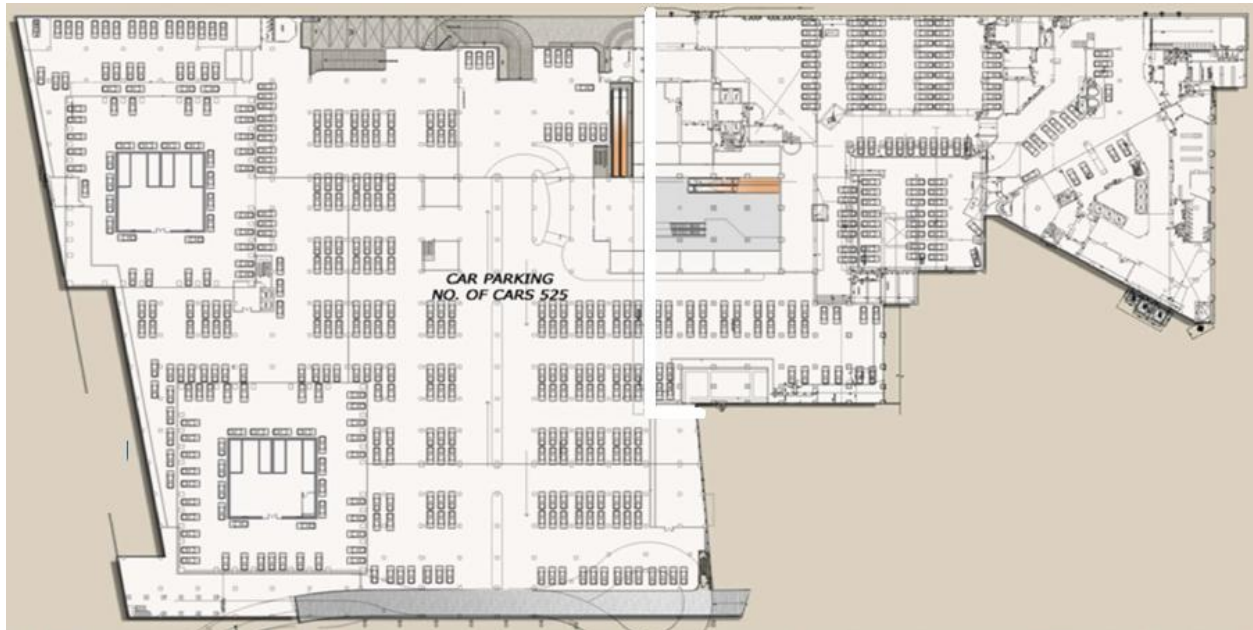
7.3.1 Scenario Analysis

SCENARIO ANALYSIS	1	2	3	4
Variables				
Occupancy Level	100%	95%	90%	85%
Rent Escalation Rate (per annum)	10%	10%	5%	5%
Dividend Payout Ratio	100%	90%	95%	90%
Results				
Fund Size PKR 22,662,000,000 (Property value PKR 22 Billion)				
Dividend Yield (Year 1)	9.33%	7.81%	7.61%	6.62%
Dividend Yield (Year 5)	13.61%	11.69%	11.39%	10.10%
Dividend Yield (Year 10)	22.10%	19.40%	18.91%	17.03%
Average Dividend Yield (10 Years)	14.91%	12.87%	12.55%	11.17%

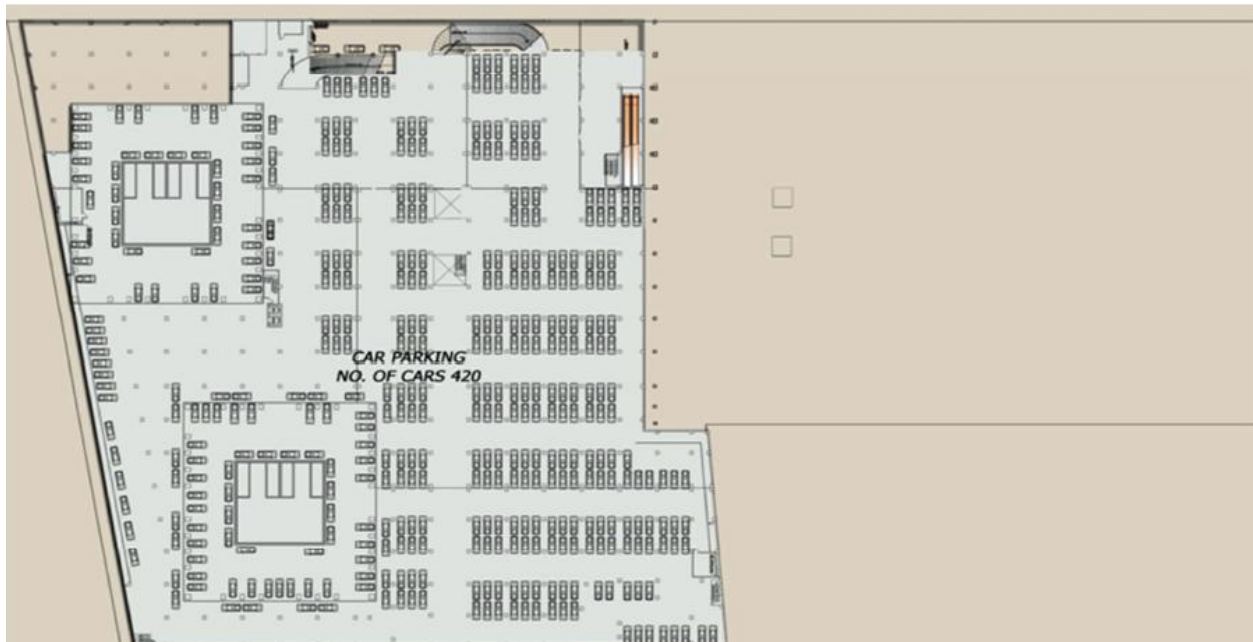
8. Appendix

8.1 Floor Plans

8.1.1 Basement Level - 1



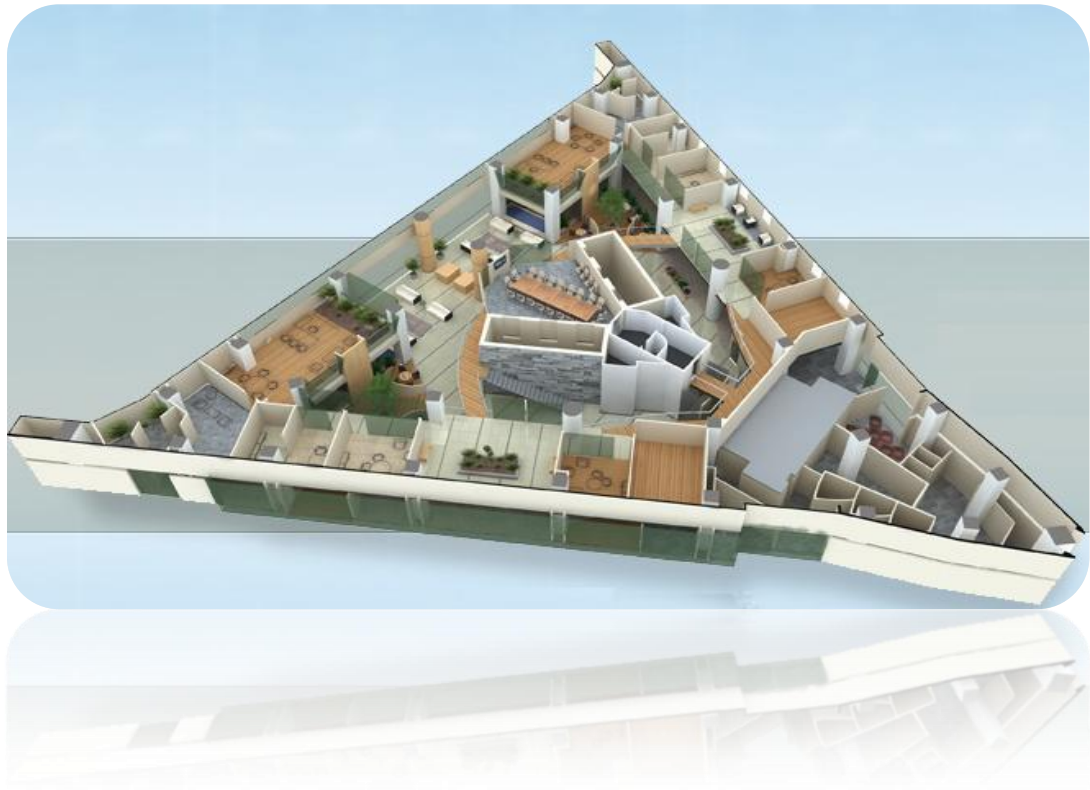
8.1.2 Basement Level - 2



8.1.5 Second Floor



8.1.6 Floor Plan of the Harbour Front Building



8.2 List of Plant & Equipment

Type	Name of Equipment		No of Assets	Useful Life (years)
HVAC	ACT	Air Curtains	18	5
	ACU	Air Condition	15	3
	AHU	Ahu	163	20
	DHM	Dehumidifier	1	3
	FAU	Fresh Air Unit	6	20
	FCU	Fan Coil Unit	389	20
	TOTAL		592	
LIFT	CRD	Fixator (Cradle Of Glass Cleaning)	2	10
	ESC	Escalator	10	20
	LFT	Passanger Lift	27	20
	TRV	Travelator	6	20
	TOTAL		45	
Power Generation & Distribution PGD	CMY	Cmy	10	10
	DTK	Diesel Tank	16	25
	GEN	Generator	10	20
	MFR	Mfr	6	20
	PAN	Diesel Fuel Pump Panel	136	25
	TRF	Transformer	12	20
	TOTAL		190	
Plant Room PR	ASU	Air-Separator Unit	1	25
	CDP	Chemical Dosing Pump	6	10
	CHL	Absorption Chiller	7	20
	CLT	Cooling Tower	8	24
	CMY	Cmy	7	10
	CWP	Condenser Water Pump	12	15
	MFR	Mfr	1	25
	PCP	Primary Chilled Water Pump	8	15
	PMU	Pressurization And Make Up Unit	2	15
	SCP	Secondary Chilled Water Pump	19	15
	TOTAL		71	
Electronics EN	ALM	Aerial Lift - Genie Portable Lift	2	22
	AWP	Aerial Work Platform - Spider Lift	1	-
	CLN	Mobile Floor Cleaner -	10	8
	DCS	Dcs	331	10
	MIC	Microwave Oven	2	3
	PGS	Parking Guidance System -	1	15

	SDR	Sliding Door	14	15
	SWD	Swing Door	2	15
	UPS	Ups	7	5
	RVD	Revolving Door	1	-
	WTG	Walk Through Gate	10	10
	TOTAL		381	
Mechanical ME	ACV	Alarm Check Valve Acv	21	12
	CIR	Circulation Pump	2	15
	DTP	Diesel Transfer Pump -	2	15
	EDR	Emergency Door	77	10
	EXF	Exhaust Fan	22	5
	FHD	Fire Hydrent	7	15
	FHR	Fhr	118	15
	FIL	Filtration Pump	2	10
	FWP	Fire Water Pump	2	20
	IVA	Iva	38	15
	JKY	Jockey Pump	1	10
	ROL	Roller Shutter	8	5
	SDP	Submersible Drain Pump	13	5
	SEF	Smoke Extraction Fan	18	10
	SGP	Submersible Grinder Pump	8	5
	SMD	Smoke Damper	33	15
	WTP	Water Transfer Booster Pump	7	15
	TOTAL		379	
Electrical EL	DBP	Distribution Panel	67	25
	HDR	Hand Dryer	17	5
	PAN	Diesel Fuel Pump Panel	49	15
	UPS	Ups	28	5
	LIT	Lit	8,127	-
	TOTAL		8,288	
Civil & Ground CG	BAR	Barricade Stand	10	5
	BRR	Barrier	5	15
	MDR	Mdr	149	15
	MPB	Metallic Pedestrian Bridge	2	15
	MSR	Metallic Stair	7	15
	TRP	Grease Trap	5	25
	TOTAL		178	
SECURITY	KGI	Khogi	4	3
	MDT	Metal Detector	7	3
	WKI	Walkie Talkie	10	3

	TOTAL		21	
FIRE & SAFETY	PFE	Fire Extinguisher	261	5
	TOTAL		261	
SYSTEMS	ADU	Access Door Unit	54	5
	AMP	Plena Voice Amplifier	16	5
	ANA	Analyzer	19	5
	ASM	Air Sampling Unit	21	5
	BIO	Bms-I/O	58	5
	BTU	Btu Meter	7	7
	CAM	Camera	304	5
	CAS	Ebi Server	2	3
	CLI	Bms Client	5	3
	CST	Mic - Call Stations	1	5
	DAB	Ebi Server	2	-
	DDC	Ddc	44	5
	DOR	Access Card System	6	-
	DRI	Access Control Dri	38	5
	EMT	Electric Meter	250	6
	FAP	Fire Alarm Panel	1	6
	FLA	Flasher	15	5
	FMP	Fire Man Panel	1	6
	FRP	Fire Repeater Panel	6	6
	GTW	Radio Gateways	5	5
	HDT	Heat Detector	64	5
	JYS	Joysticks	2	5
	LCD	Lcd	10	3
	LIP	Lip Bms	1	5
	MCP	Manual Call Point	88	6
	MTW	Matrix Wall	1	3
	MXA	Moxa Switch	12	5
	NSM	Network Storage Manager	4	4
	PAS	Pas	1	6
	PBX	Pbx	1	6
	PCL	Pc & Vms Client	7	3
	PRB	Parking Barrier	2	5
	PSM	System Manager	2	4
	PVR	Plena Voice Controller Router	3	5
	PWS	Work Station	2	3
	RCK	Rack	11	10
	RCP	Remote Call Point	16	5

	SDS	Smoke Detector With Sounder	35	5
	SDT	Smoke Detector	932	5
	SER	Bms Server	8	3
	SIC	Controller	1	5
	SND	Sounder	73	5
	SPG	Speed Gate	10	10
	SPK	Speaker	300	6
	STR	Streamer	11	5
	SWT	Switch	30	3
	TRA	Transponder	29	5
	VCD	Vcd	4	5
	VGA	Vga Cables	1	5
	VGC	Voice Controller	6	5
	TOTAL		2,522	
	GRAND TOTAL		12,928	

8.3 Contact Directory

8.3.1 Auditor

KPMG Taseer Hadi & Co. Chartered Accountants

Address: First Floor Sheikh Sultan Trust Building No. 2 Beaumont Road Karachi 75530, Pakistan
Tel: +92 21 35685847 Fax: +92 21 3568 5095

8.3.2 Legal Counsel

Mohsin Tayebaly & Co. Advocates and Corporate Legal Consultants

Address: Barristers & Advocates 2nd Floor Dime Centre, BC-4 Block 9 KDA Scheme 5, Clifton, Karachi

8.3.3 Property Manager

Dolmen Private Limited (DPL Management)

Address: Dolmen Group 17th Floor, the Harbour Front, Dolmen City, HC-3, Block-4, Marine Drive, Clifton, Karachi – Pakistan.

8.3.4 Rating Agency

JCR-VIC Credit Rating Co.

Address: VIS House, 128/C, 25th Lane Off Khayaban-e-Ittehad, Phase VII, DHA, Karachi
Tel: + 92 21 35311861-72 Fax: + 92 21 35311873

8.3.5 REIT Management Company

Arif Habib Dolmen REIT Management Company Limited

Address: 23, M.T. Khan Road, Karachi – 744000

8.3.6 Trustee

Central Depository Company of Pakistan (Pvt.) Limited

Address: CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi - 74400.
Tel: (92-21) 111-111-500 Fax: (92-21) 34326031

8.3.7 Valuer

National Engineering Services Pakistan (Pvt.) Limited

Address: 1-C, Block-N, Model Town Extension, Lahore 54700, Pakistan
Tel: 92-42-99090000, Fax: 92-42-99231950

8.4 SECP Approval letters

1. Real Estate Approval Letter:

- Letter No. SCD/PRDD/AHDRML/DCPK/2014/05, dated July 11, 2014.

2. Approval Letter:

- Letter no. SCD/PRDD/AHRML/DCPL/2013/591 dated January 01, 2014

3. Trustee Approval Letter:

- Letter no. SCD/PRDD/AHRML/DCPL/2013/591 dated January 01, 2014