RATING REPORT

Globe Residency REIT (GRR)

REPORT DATE:
February 12, 2025

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
REIT Rating	RFR2 (dr)	RFR2 (dr)
Rating Outlook/Watch	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed
Rating Date	*Feb 12, 2025*	*Jan 23, 2024*

COMPANY INFORMATION	
Registered in 2021	**External auditors:** A.F. Fergusons and Co., Chartered Accountants
Development REIT	**Scheme**: Listed closed-end developmental REIT
RMC: Arif Habib Dolmen REIT Management Limited	**Chairman of the Board:** Mr. Arif Habib **Chief Executive Officer:** Mr. Muhammad Ejaz
Trustee: Central Depository Company of Pakistan Limited	**Development Advisor:** Arif Habib Development Engineering Consultants (Private) Limited
Listing: Pakistan Stock Exchange (PSX)	**Valuer**: MYK Associates (Private) Limited
Key Shareholders (with stake 10% or more):	
Arif Habib Corporation Limited & Related Parties – 70.38% General Public – 25.51%	

APPLICABLE METHODOLOGY(IES)
Real Estate Investment Trust (REIT) Fund **https://docs.vis.com.pk/docs/REIT-Methodology-2023.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Globe Residency REIT (GRR)

OVERVIEW OF THE INSTITUTION

Globe Residency REIT (GRR) is a closed-end development REIT and was established under the Trust Deed dated December, 24, 2021.

The Project has been acquired from Javedan Corporation Limited and as per the approval from SECP the Project has been transferred to the REIT structure, effective April 1, 2022.

The REIT was listed on the Pakistan Stock Exchange Limited (PSX) on December 28, 2022 under the REIT Regulations, 2022.

RATING RATIONALE

Globe Residency REIT (GRR) operates as a closed-ended, listed developmental REIT with an indicative life of five years. Managed by Arif Habib Dolmen REIT Management Limited (RMC), the scheme has Central Depository Company of Pakistan Limited (CDC) appointed as the Trustee. GRR's primary objective is the construction of nine apartment towers at Naya Nazimabad, Karachi, covering a land area of 40,500 sq. yards. The REIT fund has a capital structure of PKR 2,800 million, divided equally between equity and debt. The REIT is in its third year of operations, with the expected Internal Rate of Return (IRR) aligning with initial projections made at the time of listing.

Auditor's Opinion

The financial statements of FY24 were audited by A.F. Fergusons and Co., Chartered Accountants, categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion as at 30th June 2024.

Governance Framework

Name	Position
Mr. Arif Habib	Chairman
Mr. Nadeem Riaz	Director
Mr. Naeem Ilyas	Independent Director
Ms. Tayyaba Rasheed	Independent Director
Mr. Muhammad Noman Akhter	Independent Director
Mr. Abdus Samad A. Habib	Director
Mr. Faisal Nadeem	Director
Mr. Sajid Ullah Sheikh	Director
Mr. Muhammad Ejaz	Chief Executive Officer

At present, the Board of Directors (BoD) comprises nine members including Chairman of the Board and CEO. There are three independent directors, four non-executive directors, and one executive director, including a female representation on the Board.

Two board-level committees, the Board Audit Committee (BAC) and the HR & Remuneration Committee, are chaired by independent members in accordance with corporate governance best practices. Detailed examinations are carried out by the internal audit function which reviews adherence to internal control processes as well as compliance of procedures and reports its findings to the Board of Audit Committee. During the year ended Jun'24, twelve (12) Board meetings, fifteen (15) Audit Committee meetings, and one (1) Human Resource & Remuneration Committee meeting were held.

Sector Update

Pakistan's real estate sector in FY24 navigated a complex landscape marked by economic and regulatory challenges. Property values adjusted to high interest rates, with the construction sector experiencing slow growth and project delays. Despite these hurdles, macroeconomic stability provided a foundation for resilience. Inflationary and monetary easing, coupled with a stable Pakistani Rupee (PKR) and increased foreign reserves, improved liquidity and boosted investment. Total foreign investment, including FDI and portfolio inflows, rose by 189% YoY in Jul'24, driven by contributions from China (under CPEC) and Gulf countries. Government initiatives to formalize the economy, expand the tax net, and reduce the grey market for foreign exchange have also been instrumental in driving sectoral changes.

Urbanization and a youthful demographic offered growth potential, but high CPI inflation (24.52% average) and elevated interest rates (19.5%) constrained progress in FY24. Import restrictions helped narrow the current account deficit and spurred localized production, notably in telecommunications and industrial manufacturing, but disrupted value chains. The office sector remained robust, with high demand for premium spaces by MNCs and local groups, maintaining strong occupancy rates in Grade A buildings. Co-working spaces and the hospitality sector also showed resilience, with occupancy surpassing pre-COVID levels.

The industrial sector benefited from increased local manufacturing, driving demand for warehouses, while retail maintained high occupancy rates in malls, with new projects like Dolmen Group's Lahore mall generating excitement. However, the residential sector struggled as speculative investor demand dwindled, leading to lower take-up rates. Karachi's Grade A and B residential market has faced challenges over the past 12 months. Both investors and owner-occupiers have slowed their activities due to rising construction costs driven by inflation and higher furnishing expenses resulting from import taxes and restrictions on imported items. This has led to reduced take-up and occupancy rates for key investments, as many potential buyers are waiting for improved economic conditions before committing.

As 2025 begins, the property market in Pakistan is undergoing notable changes, driven by economic recovery, policy reforms, and evolving buyer preferences. The country's economy has demonstrated resilience, supported by remittances, growing exports, and government-led initiatives that have stabilized key indicators. Interest rates have dropped to 12% with projections to decline further to 9%, complemented by a stable PKR and controlled inflation. This favorable economic environment has positioned real estate as an attractive investment option. Additionally, the stock market's impressive performance, surpassing the 100,000-point mark, underscores the growing optimism around the sector.

Encouragingly, more REITs were launched, registering assets over Rs. 280b, and 39 NBFCs acquired licenses to act as real estate managers, signaling a growing institutional presence in the sector despite ongoing political and economic uncertainties. Moreover, as per Savills Real Estate Market Overview, the city Karachi has approximately 1,552 Grade B apartments, with an additional 2,404 Grade A and B units expected to be added over the next five years. This 55% increase in supply reflects developers' confidence that, in the medium to long term, demand for apartments will rise as Pakistan's economy stabilizes.

Key Rating Drivers

Sponsor profile and market position

The rating is supported by the confidence derived from the profile of its sponsors. The sponsors, being pioneers in the launch of both rental and developmental REITs, maintain a strong foothold in this sector despite the impending entry of numerous competitors. Additionally, their achievements with rental REIT and their extensive experience in real estate development, exemplified by the Naya Nazimabad project, grant them a notable competitive edge. Moreover, the sponsor's successful track record in REIT management and financial stability of associated entities contributes to the overall resilience and credibility of GRR, further supported by a well-regarded management team at Arif Habib Dolmen REIT Management Limited. This backing reinforces the project's capacity to withstand market fluctuations and achieve long-term performance targets.

Project Cost and Timelines

The estimated total project cost for GRR is Rs. 23.7b, compared to the initial estimate of Rs. 20.4b. The increase in costs is largely attributable to project enhancements involving additional floors. As per management, all budgeted estimates include a 10% contingency. Project cost increase is planned to be financed through additional borrowing and customer advances. Overall, the project cost is to be financed primarily through customer advances accounting for 82% of the project costs. The remainder of the financing is sourced through a structured mix of equity, debt, and a Musharaka partnership with Meezan Bank Limited, initiated in Aug'22.

Project completion timeline has been delayed by approximately 12 months, with the new target set for Dec 2026. As per management, some construction milestones have been adjusted to take advantage of an improved macroeconomic environment. The primary reason for the delay involves project enhancements to optimize value and scalability, aligning the design with anticipated future demand. Given the scale of the project, the variances in the construction schedule remain manageable. Off the nine towers, 3 have achieved more than 50% completion while average completion of the remaining towers stands at 35%.

Musharaka Agreement with Meezan Bank

Meezan Bank and GRR have entered into a Musharaka Agreement in Aug'22 to jointly develop and sell three apartment towers at the GRR site. The agreement is designed to expedite the construction process and streamline the sales of the specified towers. Meezan Bank Limited will provide financing or other support to help accelerate the completion of these towers. Both parties have agreed to share profits and losses on a 50/50 basis. This means that any profits generated from the specified towers will be equally distributed between Globe Residency REIT and Meezan Bank Limited. Conversely, any losses incurred will also be shared equally. By the end of FY24, Rs. 1,135.7m were received from Meezan Bank under the Musharika arrangement.

Sales and Inventory Position

GRR's total inventory (including additional floors) consists of 1,639 apartments, of which 834 units were sold as of Sep'24, for a cumulative sales value of Rs. 12.76b. This figure includes 48 units (FY23: 155) sold in FY24 and 18 units sold during the 1QFY25, indicating a drop in sales due to challenging market conditions. GRR has structured its sales plan in phases, with progress on track, albeit slower than projected. Inventory under the Musharaka arrangement with Meezan Bank constitutes 537 apartments, designated for joint sale efforts. This partnership structure helps manage the risk of unsold units while enabling GRR to achieve its projected sales targets.

	Sep'24
Total project inventory	**1,639**
Inventory under Musharika	537
Launched for booking	1,102
Units Sold	**834**

As per management, with the revision in town planning regulations by the authorities, project inventory is expected to enhance. Going forward, achievement of sales plan remains critical for ratings.

Installment recovery, which stands at 91.5% as of Sep'24, depicts a lag in collections, influenced by the macroeconomic environment and inflationary pressures, albeit remain manageable. The timely collection of installments is a critical factor supporting project completion and remains a key rating driver.

As a result of slowdown in sales and lag in collections, cash flows have been impacted. To manage the same, management has renegotiated loan terms with its long-term lender, Bank Al Falah. Under the new agreement, the principal repayments, initially structured on a semi-annual basis over three years following a one-year grace period, have been changed into a step-up payment arrangement over four years. Additionally, the overall loan tenor has been extended to five years, including the one-year grace period. These changes are expected to alleviate cash flow pressures, nevertheless, cash flow sensitivity to any potential delay in sales or recoveries remains elevated.

Gearing and Leverage

Gearing and leverage indicators depict an increase on account of additional borrowing to fund project change of scope. As of Sep'24, total equity stood at Rs. 1,515.1m (Jun'24: Rs. 1,687.4m; Jun'23: Rs. 1,855.5m). This reduction is primarily attributed to dividend payouts. Combined with an increase in debt levels, this led to an increase in the gearing ratio to 1.14x

(FY24: 0.93x; FY23: 0.75) as of Q1 FY25. With an anticipated increase in gearing levels management of debt levels remains crucial for maintaining a stable leverage profile and ensuring the project's long-term viability.

Rating draws comfort from long term viability of the project

While real estate sector experienced challenges in terms of rising costs and affordability, rating takes comfort from the long-term viability of the project supported by strong and experienced sponsors, strategically located planned community, improving macroeconomic conditions favoring real estate investment and growing demand for quality housing for middle income residents. Furthermore, in terms of cost and project timeline, the variation remains within acceptable thresholds, which fairly mitigates the completion risk and supports the long-term viability of the project.

Globe Residency REIT **Appendix I**

FINANCIAL SUMMARY				(Rs. in millions)
BALANCE SHEET	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Sep-24**
Investment Property	2,301.4	2,055.9	2,390.3	2,353.3
Contract cost assets (including current portion)	28.3	38.4	23.5	23.5
Contract assets	784.6	1,223.9	1,597.7	1,653.2
Advance and receivables	450.3	316.5	457.3	466.5
Advance for development expenditure	324.5	319.2	236.8	233.9
Receivable from joint operator	0.0	148.5	67.5	171.2
Cash and Bank balances	160.1	7.3	8.8	10.6
Total Assets	4,049.8	4,113.2	4,790.0	4,920.0
Long term loan	1,400.0	1,400.0	1,483.3	1,583.3
Outstanding land consideration (including current portion)	700.0	250.0	250.0	250.0
Working capital finance	0.0	0.0	52.8	137.8
Contract liabilities	66.0	178.0	253.6	232.7
Trade and other payables	128.3	126.8	538.0	331.4
Accrued expenses and other liabilities	139.8	196.9	397.5	402.5
Accrued mark-up	14.5	81.4	74.2	170.5
Total Liabilities	2,465.4	2,257.7	3,102.6	3,404.9
Paid-up Capital	1,400.0	1,400.0	1,400.0	1,400.0
Equity	1,584.4	1,855.5	1,687.4	1,515.1
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**Q1FY25**
Revenue from contracts with customers	2,564.5	2,849.8	3,036.6	492.6
Gross Profit	507.6	427.5	389.6	94.5
Net Operating income	417.0	330.0	307.6	70.8
Profit Before Taxation	412.2	408.3	265.5	73.4
Profit for the year	342.4	271.1	251.9	72.7
RATIOS	**FY22**	**FY23**	**FY24**	**Q1FY25**
Gearing (x)	0.88	0.75	0.91	1.14
Leverage (x)	1.56	1.22	1.84	2.25
Total Debt/Assets (x)	0.35	0.34	0.32	0.35
Total Liabilities/Assets (x)	0.61	0.55	0.65	0.69
Gross Margin	19.8%	15.0%	12.8%	19.2%
Net Margin	13.3%	9.5%	8.3%	14.8%
Current Raito (x)	7.13	3.09	2.53	2.35

REGULATORY DISCLOSURES	Appendix II			
Name of Rated Entity	Globe Residency REIT			
Sector	Construction			
Type of Relationship	Solicited			
Purpose of Rating	Development REIT			
Rating History	**Rating Date**	**Medium to Long Term**	**Rating Outlook/Watch**	**Rating Action**
	RATING TYPE: DEVELOPMENT REIT			
	12/02/2025	RFR2 (dr)	Stable	Reaffirmed
	23/01/2024	RFR2 (dr)	Stable	Reaffirmed
	20/12/2022	RFR2 (dr)	Stable	Initial
Instrument Structure	NA			
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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Due Diligence Meetings Conducted	**S.no**	**Name**	**Designation**	**Meeting Date**
	1	Mr. Muhammad Ejaz	CEO	30th October 2024
	2	Mr. Razi Haider	CFO	