STANLIB Fahari I-REIT

Investor Presentation
2017 FY

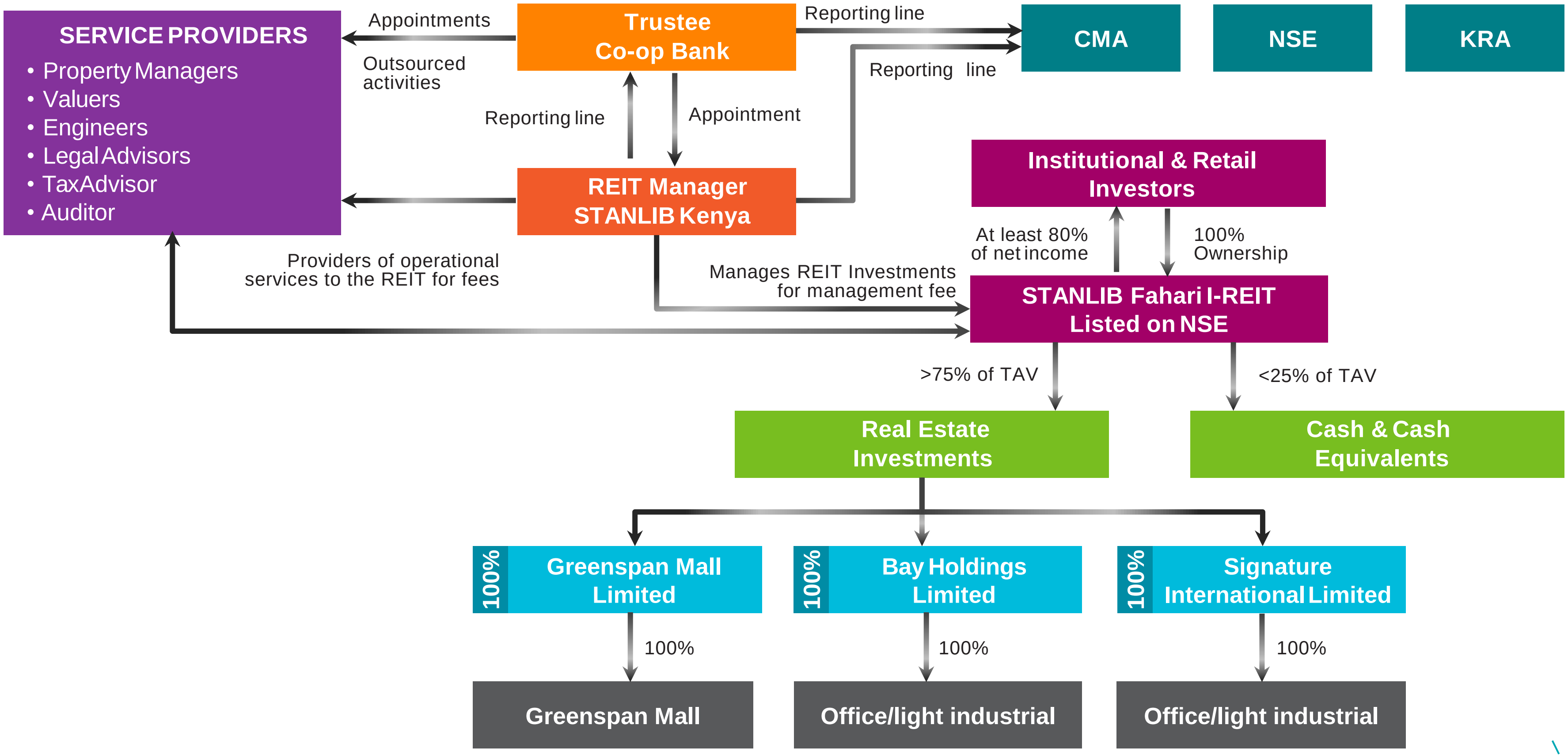
Presented by SFIR CEO, Kenneth Masika

29th March 2018

STANLIB
Fahari I-REIT

our Today

How we are structured…



Operating Environment

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Operating Environment

Property

The sector experienced stagnation attributed to continued oversupply in certain neighborhoods, a slowdown in the economy coupled by the underperformance of some retailers such as Nakumatt and Uchumi which closed several branches within the year under review

Political

- The prolonged presidential electioneering period which led to a “wait-and-see” attitude in everything from large scale investment to daily spending

Regulatory

- Legislation driven slowdown in lending - led to a massive reduction in SME and Real Estate Loans
- Gazettement of Special Economic Zone regulations in 2016 paving way for licensing of the Kenya’s first privately owned Special Economic Zones in 2017

Operating Environment – Property Space

- Office sector exhibited stagnation as a result of:
  - Low economic growth
  - Unfavourable political environment
  - Downsizing by multinationals
  - Oversupply within certain nodes
- Consequently, asking rents are expected to largely remain flat in 2018
- Demand for decentralised high quality industrial space remained strong in 2017 with more investors taking interest in this niche market.
  - Africa Logistics Properties signed on a tenant on a 10-year lease for 14,000 m² – *the single largest letting ever seen in industrial sector*

- In **2017**, Nairobi witnessed supply of over **100,000m²** - *Two Rivers Mall (67,000 m²).* Retail supply pipeline for **2018 >100,000 m²**
- Increased penetration by international retailers filling up the gap let behind by the two giants – Carrefour, Game and Choppies
- significant **reduction in consumer spending** + retailer level **operational challenges** further complicated the sector
- Tenant attraction and retention remained a major challenge in 2017 with most landlords opting to grant flexible lease terms - *rent discounts, reduction in escalation rates and longer fit out period*

Current Portfolio

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Greenspan Mall

Property
Greenspan Shopping Mall

Type
Retail

Location
Savannah Road, Donholm

Description
A modern shopping mall within the middle income area of Donholm, approximately 15 kms to the east of the city centre of Nairobi

Escalation rates
Average 7.5% p.a.

Lettable Space / Occupancy
155,477 SQF
94%

Bay Holdings & Signature

Property
Bay Holdings

Type
Commercial

Location
Bamburi Road, Industrial Area

Description
Office cum light industrial property located along a main road within the main industrial area

Escalation rates
12.5% every 2 years

Lettable Space / Occupancy
33,265 SQF
100%

Property
Signature

Type
Commercial

Location
Pokomo Road, Industrial Areaa

Description
Light industrial with three storey offices. Fully let to a leading cooling equipment manufacturing in the region

Escalation rates
12.5% every 2 years

Lettable Space / Occupancy
7,638 SQF
100%

Strategic Focus

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Key strategic and operational areas of focus

Tenant Mix

- **Long weighted average remaining lease terms** - Renewed 8% of our leases by GLA to cushion investors in a softening rental market. >60% of our leases by GLA will expire beyond 2020. Only 12.6% expires in 2018, currently under negotiations
- **Enhanced tenant mix** – Increased and retained stronger covenant tenants – Safaricom, Airtel, Tuskys, Multichoice, Bata, Optica , 6 financial institutions, leading healthcare providers i.e. AgaKhan & Avenue Healthcare
- Introduction of new tenancies that are complementary to the existing ones - Cinema
- **Tenant concentration** in the portfolio – well diversified tenant mix
- **Re-location/ rationalization** of tenancies - poor performing ones within
- **Active asset management** to establish major **Tenants' financial health**, to retain good quality tenants and exiting the non – performing/ non- strategically aligned ones
- Overall aim is to achieve consistent , sustainable and growing income stream

Cash Management

- In-place rents are within market rents hence stable income stream going forward
- Rent collections invested in a diversified portfolio of near cash instruments.
- Investments in line with Investment Policy Statement (IPS) to ensure optimal returns with minimal exposure to financial sector risk

Key strategic and operational areas of focus

Deal Pipeline Management

- Regulatory extension – Out of prudence as a result of difficulty in finding assets that are strategically aligned to the fund within the set timelines
- Ongoing identification and pursuit of suitable property acquisitions
- All planned acquisitions will be value accretive and diversification of potential concentration risk of Greenspan in the portfolio

Debtors Management

- Implementation of stringent debt collection policies and procedures
- Proactively engaging with tenants to identify their potential stress points
- Space rationalization in conjunction with potential struggling tenants to enhance better fit within the portfolio

Service provider management

- Ensure their service delivery is aligned to property-level as well as portfolio level strategy
- Re-negotiation of the service costs and rationalization of the scope without compromising on quality

Property Acquisition Process

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SFIR Transaction Process

- All SFIR property investment and strategy orientated work are prepared in consultation with the STANLIB Direct Property Investment Committee (“SDPIC”).
- Thereafter, the recommendations are presented by the REIT Manager team to the STANLIB Fahari I-REIT Investment Committee (“SFIR -IC”) which reports to the Board of the REIT Manager.
- Should the REIT Manager (through SFIR-IC) approve a transaction after confirmatory due diligence, it recommends the decision to the Trustee, who ultimately make the decision on behalf of the REIT Scheme.
- The Trustee are responsible for all governance of the REIT Scheme, including the appointment of necessary advisors and providing approval of REIT Manager’s recommendations.
- The Trustee must always act in the best interests of the Unitholders.

SFIR governance structure

Internal and external governance structures enable us to make the best investment decisions for our portfolios

REVIEW

REIT Management

Initial Investment paper to investment committee requesting approval to proceed to due diligence

SFIR Investment Committee STANLIB Direct Property IC (Advisory Capacity)

- The IC is responsible for all investment decisions undertaken by SFIR.
- Review investment paper, approval to proceed to due diligence

RECOMMEND

SFIR Trustee

To approve initial investment paper and authorise REIT management to proceed to due diligence

SFIR Investment Committee and STANLIB Direct Property IC

SDPIC & SFIR IC review all property due diligence report outcomes and recommend the transaction to Trustee for approval

APPROVE

SFIR Trustee

On approval of due diligence report, the transaction proceeds to contracting stage. **SFIR Trustee is responsible for overall governance of SFIR.**

Due Diligence Process

Due Diligence work stream	Purpose
Valuation	To independently establish the market value prior to acquisition or disposal
Legal	Legal advice and conveyancing
Engineering	Establish the integrity of Structural ,Mechanical, electrical and plumbing installations in target assets
Survey and Town Planning	Establish the physical extent of the target assets as well as authenticity of the title and maps
Tax and Finance	Establish tax health of the target assets and SPVs
Environmental Social Governance	Establish environmental and social governance issues around target assets

Return enhancements
New Acquisitions

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New Acquisition – Subject to regulatory and unitholder approval

Property
LR. 3734/1426; 67 Gitanga Place

Type
Grade A Low Rise Office

Location
Gitanga Road, Lavington

Description
A modern high quality office accommodation, designed to international standards, offering the single tenant a secure, highly efficient and flexible working environment

Rent and Escalation rates
1st year Income – KShs 73.8 Mn
Escalation : 15% every two years

Lettable Space / Occupancy
41,312 SQF; 97 parking bays
100%

Target asset to enhance Fund Returns

Parameter	Fund as at 31st December 2017	Target Asset
Property Income Return	7.5%	8.33%*
Property Capital Return	0.9%	To be confirmed at year end
Property Total Return	8.4%	IRR – 14.42*

* Includes interest income from security deposit and advance rent payable half yearly in advance

Return enhancements
New Tenancies

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Cinema at Greenspan Mall

Property

Greenspan Shopping Mall

The Idea

- To develop state of the 3-D; three screen multi functional cinema project that becomes a resource at the heart of its community
- 300 Pax
- Complementing other tenancies by drawings foot-fall, extending dwelling time in the mall, cross-selling and improving customer loyalty
- Enhancing entertainment offering in the mall
- Enhancement of overall mall yield and hence portfolio return
- Unit rationalization - Utilize an otherwise idle space and increase the GLA

Status

- Operator identified and terms agreed
- Preliminary works on-going
- Expected opening – Q4 2018

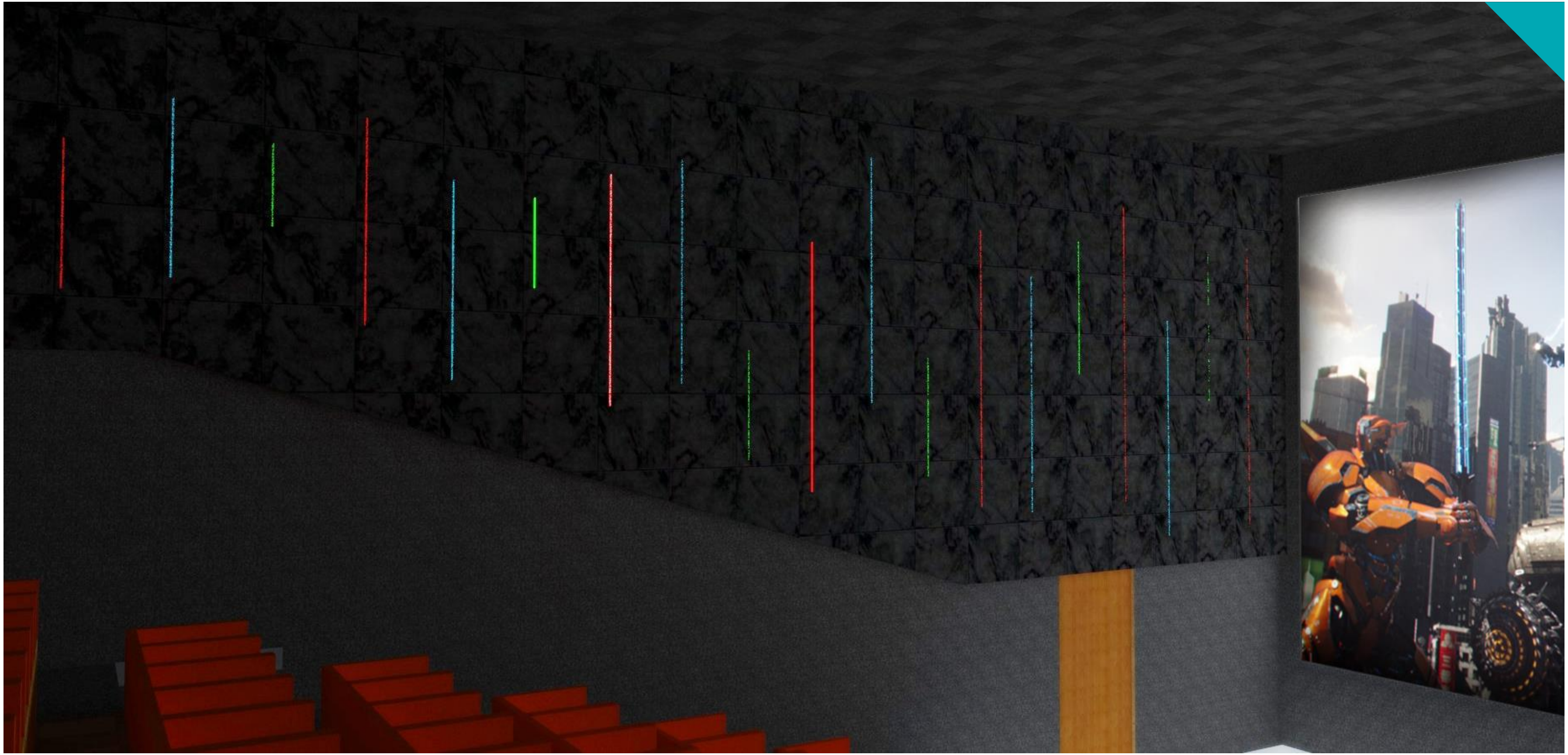
Summary of Deal Terms

Item	Agreed Terms
Gross Lettable Area (Sq Ft)	6,416
Lease Term	10 years
Rent Per Month (KShs)	380,000
Rent Per Sq Ft Per Month (excl SC, Tax & Promo Fund)	59
Escalation – Annual	5%
Project Cost Excluding Statutory costs (KShs) (excl VAT)	38 905 881
Greenspan Capital Value as at 31st December 2017	2 170 000 000
Project as % of Building Value	1.79%
Payback Period	7.28 Years
Initial Yield	11.7%
Greenspan Mall Yield as at 31st December 2017	7.5%

Perspective View 1 – Entrance Side

View from Lounge towards entrance

View of Cinema Interior



The Performance

Financial Performance

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2017 Socio-economic environment

GDP

- Real GDP declined to an estimate of 4.5% compared to 5.8% in 2016 mainly due to subdued credit growth caused by interest rate caps, severe drought as well as prolonged political impasse over the Presidential election
- GDP expected to grow to 5.5% in 2018 (*World Bank)*
- A rebound is expected in both the private and public sector which will bolster the growth

Inflation

- Inflation averaged 8.0% in 2017 compared to 6.3% in previous year
- A drought in the earlier half of the year led to a contraction in agricultural output
- Inflation touched a high of 11.7% in May 2017
- Fuel inflation remained low at 3.3%, supported by lower electricity prices arising from a fall in the foreign exchange cost adjustment

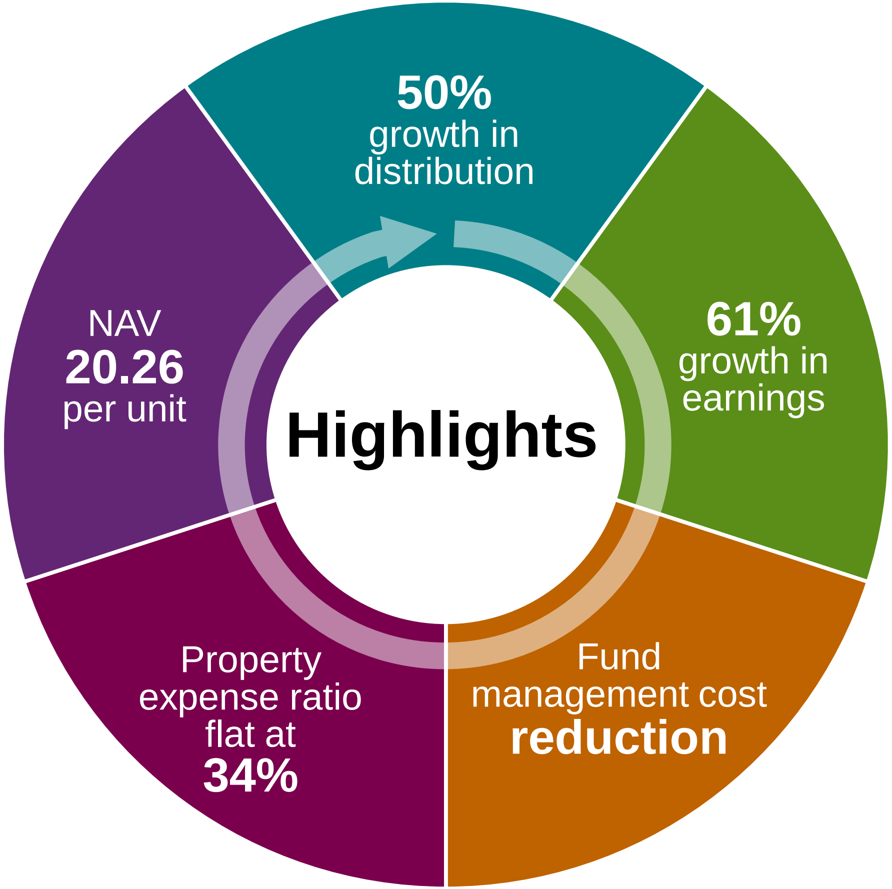
2017 Socio-economic environment - continued

Political risk

- 2017 was characterized by long electioneering period resulting from the nullification of presidential election
- The withdrawal of the opposition from the repeat election worsened the situation which affected investor confidence significantly
- The political temperatures normalized in 2018 after political class reached an agreement

Credit growth

- There was credit slowdown in 2017 mainly resulting from interest rate cap introduced in Q3 of 2016
- Government borrowing crowded out private sector borrowing since banks shifted to low risk treasury bonds and bills
- Interest rate cap is expected to be revisited in 2018 to allow broader access to credit especially to first time borrowers who are perceived by the lenders as high risk



50%
growth in
distribution
61%
growth in
earnings
Fund
management cost
reduction
Property
expense ratio
flat at
34%
NAV
20.26
per unit
Highlights

Consolidated statement of comprehensive income

	2017 KShs	2016 KShs
Revenue	270 689 177	337 576 486
Rental and related income	279 433 136	248 572 436
Straight-lining of lease income	(8 743 959)	89 004 050
Other income	101 606 066	137 856 149
Interest income	99 852 345	111 209 231
Bargain purchase gain on acquiring property subsidiaries	-	25 156 147
Sundry income	1 753 722	1 490 771
Operating expenses	(231 925 562)	(265 053 969)
Property expenses	(96 292 614)	(84 631 625)
Fund operating expenses	(135 632 948)	(180 422 344)
Fair value of investment property	30 756 728	(81 004 050)
Fair value adjustment to investment property	22 012 769	8 000 000
Straight-lining of lease income	8 743 959	(89 004 050)
Operating profit	**171 126 409**	**129 374 616**
Finance costs	-	(23 374 328)
Net profit for the year	**171 126 409**	**106 000 288**
Other comprehensive income	-	-
Total comprehensive income attributable to unitholders for the year	**171 126 409**	**106 000 288**

Consolidated statement of financial position

ASSETS	2017 KShs	2016 KShs
Non-current assets		
Investment property	2 460 000 000	2 435 000 000
Fair value of investment property for accounting purposes	2 379 739 909	2 345 995 950
Straight-line lease adjustment	80 260 091	89 004 050
Property and equipment	4 138 729	4 729 976
	2 464 138 729	**2 439 729 976**
Current assets		
Investment securities	529 000 000	733 035 734
Trade and other receivables	80 298 715	102 059 051
Cash and cash equivalents	688 190 218	440 186 650
	1 297 488 934	**1 275 281 435**
Total assets	**3 761 627 663**	**3 715 011 411**
EQUITY & LIABILITIES		
Capital and reserves		
Trust capital	3 479 540 745	3 479 540 745
Revaluation reserve	30 012 769	8 000 000
Retained earnings	156 627 778	98 000 288
	3 666 181 292	**3 585 541 033**
Current liabilities		
Trade and other payables	95 446 371	124 435 477
Tax payable	-	5 034 901
	95 446 371	**129 470 378**
Total equity & liabilities	**3 761 627 663**	**3 715 011 411**

Key highlights

Statement of comprehensive income

61% ▲
Net profit

12% ▲
Rental and related income

53% ▲
Distributable earnings

50% ▲
Distribution

Property expense ratio
34%

Management expense ratio
3.7%

8.5%
Total return

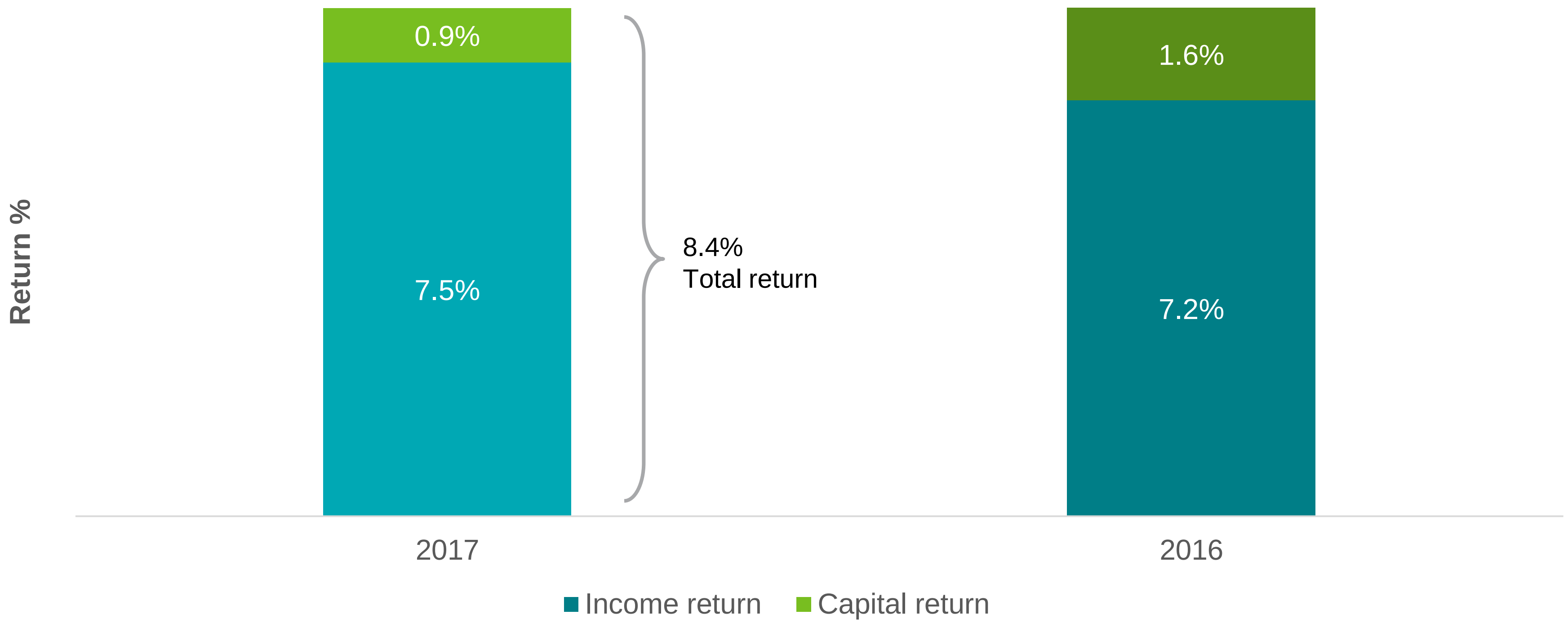
Statement of financial position

Investment property
KShs 2.5B

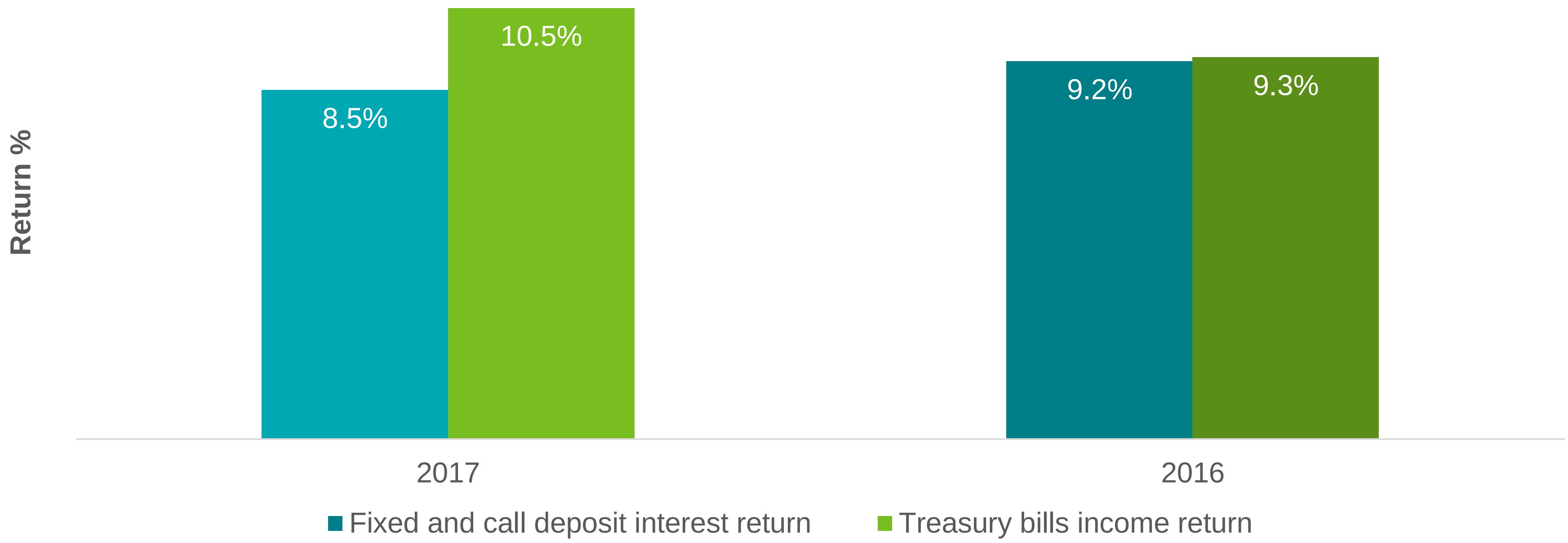
Other Assets
KShs 1.2B

AUM
KShs 3.7B

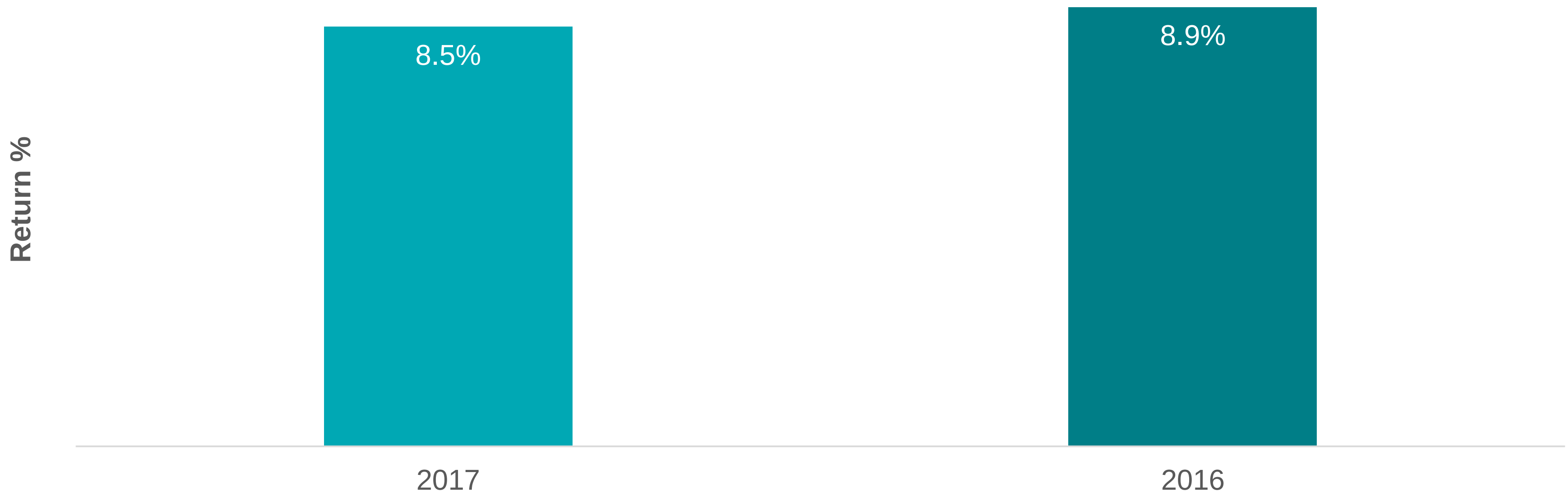
Property income return



Interest income

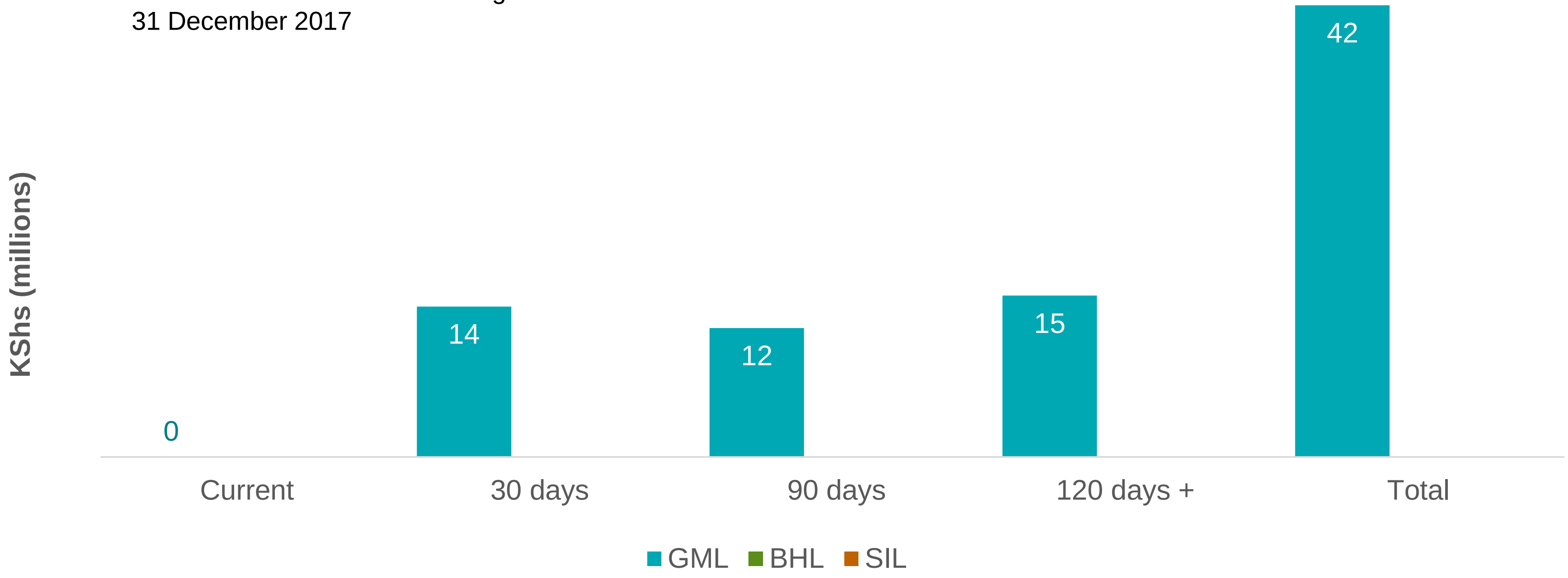


Total portfolio return

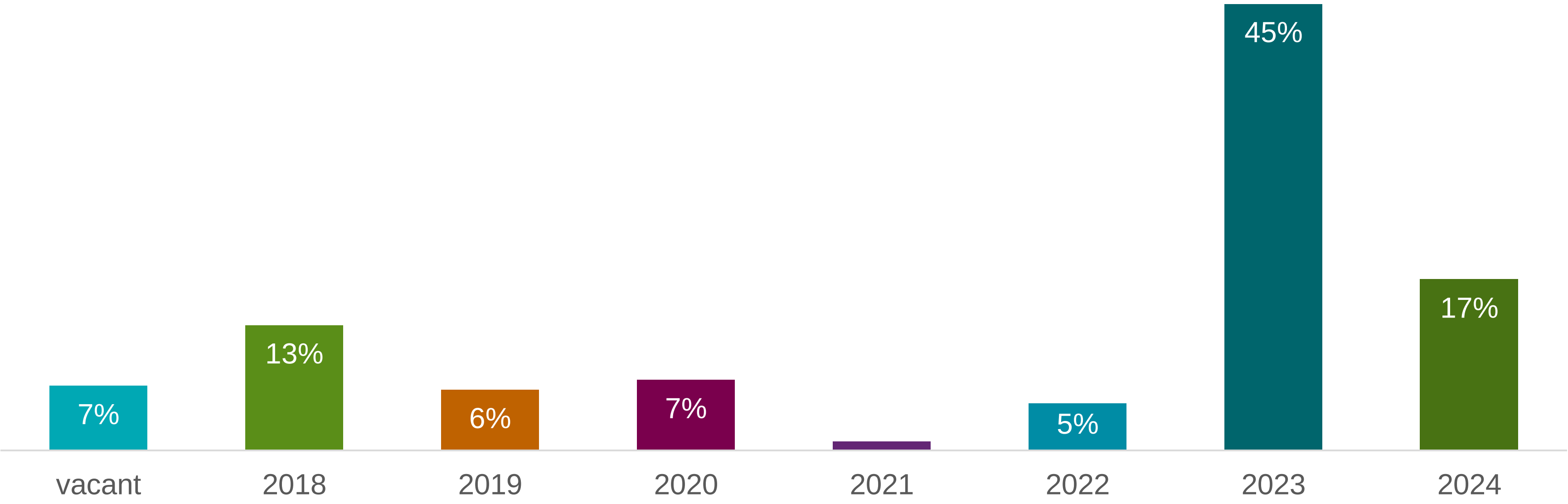


Debtors age analysis

BHL and SIL had no outstanding rent arrears as at
31 December 2017



Lease expiry profile



Vacancies

Property	GLA	Vacancy %	Target limit %
Greenspan Mall	155 477	8.1	5.0
Bay Holdings	33 265	-	-
Signature International	7 638	-	-
Total / weighted average	**196 380**	**6.5**	**5.0**

Net asset value prior and post distribution of 2017 earnings

Net Asset Value Prior and Post Distribution of 2017 earnings

As at 31 December (KShs)	2017	2016
Net asset value prior to distribution	3 666 181 292	3 585 541 033
Net asset value post distribution	3 530 452,067	3 495 054 883
Net asset value per unit prior to distribution	20.26	19.81
Net asset value per unit post distribution	19.51	19.31
Yield based on the value of the unit as at 31 December 2017	**7.00%**	**4.29%**

Portfolio mix

Portfolio mix KShs (m)	2017	2016	Average
Cash instruments	1 217	1 173	1 195
Investment property	2 460	2 435	2 448
Total	**3 677**	**3 608**	**3 643**

the Future

The REIT journey to date

2013

SKL begins conceptualization of the REIT product

CMA REITs Regulations enacted

2015

27th November IPO Listing

- 30th September REIT CMA license and business registration
- Income Tax Act amended to include REITs exemption

2016

16th August First mid-year reporting

- Un-audited distributable earnings of Kshs 0.13 per unit

2017

March Inaugural annual report April - 1st Dividend payment

- Maiden 13 Months dividend of Kshs 0.50 per unit and NAV of Kshs 19.81
- Un-audited half year distributable earnings of Kes 0.43 per unit

2018

March annual report April – 2nd Dividend payment

- 12 month dividend of Kshs 0.75 per unit and NAV of Kes 20.26
- acquisition of new property portfolio

Our strategic priorities

1

Growing the portfolio is an urgent strategic priority for us

- Quantum
- Diversification
- Quality of assets and income streams

2

- Actively managing the existing portfolio
- Resolving issues such as the tax regulation gap

3

- Funding options – Identifying like minded strategically aligned investors for asset for unit swaps
- Debt when necessary

4

- We believe by growing the size of the portfolio, we will also address other strategic issues, such as performance and management expense ratio

5

- Remaining where we are is not an option

our Value Proposition

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Our value proposition to Investors

1 \ We offer superior liquidity within a structured and well regulated product

2 \ We offer an established product which enjoys protections accorded to publicly traded securities – Governance, disclosures and financial reporting

3 \ We enable greater potential for portfolio diversification

4 \ We are an experienced professional manager of REITs

5 \ We provide high pay out ratio and will provide competitive returns through economies of scale

6 \ Predictable earnings – backed by long term commercial leases

Thank you

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