

PRESS RELEASE

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STANLIB Fahari I-REIT unveils its unaudited financial results for H1 2019

Financial highlights for the 6 months ended 30 June 2019

- Net profit: KShs 76.4 million (June 2018: KShs 65.8 million)
- Rental and related income KShs 170.6 million (June 2018: KShs 135.1 million)
- Interest income KShs 13.2 million (June 2018: KShs 41.9 million)
- Property expenses KShs 48.8 million (June 2018: KShs 38.1 million)
- Fund management expenses KShs 58.6 million (June 2018: KShs 73.5 million)
- Distributable earnings per unit 42 cents (June 2018: 36 cents)
- Portfolio vacancy rate 12% (June 2018: 10%)

STANLIB Fahari I-REIT's net profit for the first half of 2019 amounted to KShs 76.4 million, a 16% growth on the previous financial period's net profit. This translates to distributable earnings of 42 cents per unit (June 2018: 36 cents).

Rental and related income increased by 26% mainly due to rent and service charge income from the new property acquired on 29 May 2018. The continued vacancy in the smallest property in the portfolio, Highway House, put a small dampener on total revenue; however, this was offset by the increase in the other properties' revenue in line with lease escalations. The property is being actively marketed for letting and as such has been moved from 'asset held for sale' back to 'investment property'. The newly constructed cinema whose rent starts accruing from 1 August 2019 is expected to bolster revenue further during the second half of the year.

Interest income decreased significantly compared to the comparative period due to the utilisation of surplus cash in acquiring the new property in the prior year. The REIT earned a total return of 8.7% from its various cash investments during the period under review.

Property expenses increased by 28% mainly due to additional expenses from the newly acquired property; the majority of these expenses are covered by the service charge income and include one-off expenditure of KShs 4.7 million incurred to comply with environmental regulations. The property portfolio's expense ratio remains under control at 28.6% (June 2018: 28.2%).

Fund operating expenses decreased by 20% due to the prior period including business acquisition costs of KShs 8.3 million to acquire a new property compared to only KShs 0.3 million incurred in the current period to evaluate a potential acquisition. In addition, the ability to recoup input VAT at a fund level has helped reduce fund operating expenses; previously these costs were inclusive of input VAT.

As at 30 June 2019, total assets under management stood at KShs 3.7 billion comprising investment property valued at KShs 3.4 billion and cash reserves of KShs 235 million. Cash reserves have declined mainly due to investment in capex projects at Greenspan Mall including the construction of a cinema, sinking of a borehole and acquisition of related borehole infrastructure.

Construction work to install a 3-screen cinema at Greenspan Mall was completed in May 2019. The cinema launch has been moved to 30 August 2019 to give the cinema operator adequate time to fit out. This development will strengthen the mall's entertainment offering and is expected to increase foot traffic, benefit existing and future tenants and increase rental income.

No interim distribution has been declared.

Commenting on the financial results, STANLIB Fahari I-REIT's Acting CEO Ms Nozipho Makhoba said: "We are pleased with the 16% growth in STANLIB Fahari I-REIT's earnings for the first half of 2019. The fund management cost reduction is in line with our efforts to keep costs under control in order to maximize returns. Trading conditions continue to be tough and the market is still a tenant's market, however our portfolio has shown resilience with leases being renewed at reasonable rates and the portfolio vacancy at 12%. Vigorous marketing activity is ongoing to attract suitable targeted tenants. On the regulatory front, we are extremely pleased that the Finance Bill 2019 has included the long awaited exemption of REIT investee companies from income tax. This is a major boost not only for STANLIB Fahari I-REIT but for the REIT industry as a whole as it removes uncertainty around the tax exemption status of REITs". The bill awaits approval by Parliament in August 2019.

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