

## PRESS RELEASE

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### **STANLIB Fahari I-REIT delivers a net profit of KShs 193 million and lays out plans to grow its property portfolio**

STANLIB Fahari I-REIT has realized a net profit growth of 13% for the year ended 31 December 2018 which translates to KShs 193 Million. The results by the first and only real estate investment trust in Kenya listed on the Nairobi Securities Exchange – were buoyed by a net revaluation gain on its investment property of KShs 65 million.

“The portfolio’s market valuation was bolstered by the addition of a modern 300 seat capacity, 3-screen cinema at Greenspan Mall which will be commissioned in the second quarter of 2019 underpinned by a 10 year lease. Recent successful renewal of key tenant leases also contributed to the mall’s improved future cash flows and expiry profile and will counter the challenge of vacancies in the portfolio.” said the Fund’s Acting CEO Ms. Nozipho Makhoba.

However, despite the increase in net profit, distributable earnings declined by 14% to KShs 127.9 million (2017: KShs 149.1 million) as a result of increases in vacancies. The smallest and single-tenanted property in the portfolio, known as Highway House, remained vacant for nine months in 2018 following the exit of the tenant at expiry of the lease. Although not material in size, it did put a dampener on the current year’s earnings.

Rental and related income increased by 11% to KShs 309.8 million while interest income decreased by 43% to KShs 56.4 million in line with the utilization of excess cash to purchase an A-grade three storey office building situated in Lavington, Nairobi. The transaction was completed on 29 May 2018 with rental income from this property accruing from that date.

Property expenses increased by 13% to KShs 108.9 million in line with the incorporation of the expenses from the new property acquisition. Most of these expenses are funded out of the service charge income. Irrecoverable withholding tax expenses also increased as more tenants were appointed as withholding tax agents by KRA in 2018. This tax leakage at a property subsidiary level is expected to be resolved through the anticipated update of the tax legislation to expressly exempt REIT owned subsidiaries from income tax. The tax leakage contributed to the fall in distributable reserves by KShs 13.5 million in 2018.

Fund management expenses decreased by 4% to KShs 130.2 million in line with the downward review of the REIT Manager’s fee which took effect from 1 July 2017 and was implemented for the full year in 2018. The recoupment of VAT input expense that had previously been capitalized to fund expenses in the past also contributed to the cost reduction.

At 31 December 2018, investment property accounted for 90% of assets under management while the balance of the funds (i.e. KShs 386.6 million) was invested in cash and other instruments, which confirms that the REIT portfolio is in compliance with the regulatory requirement to invest at least 75% of net assets in investment property.

STANLIB Fahari I-REIT also laid out plans to grow its property portfolio which currently comprises four properties valued at a total of KShs 3.4 billion. The Fund's strategy is to position itself as a strategic partner of pension schemes as well as insurance companies that are currently overweight investment property and desire to rebalance their portfolios in line with the relevant pension and insurance regulations in Kenya.

Ms. Makhoba further announced that the REIT Manager's Board recommended and the Trustee has approved a final dividend of KShs 0.75 per unit which will see the distribution remaining flat year-on-year despite the reduced distributable earnings. This move underlines management's confidence in the REIT's current fundamentals as well as future prospects.

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