

TFI-EU Property Income Fund



Fund Summary

TFI-EU Property Income Fund (the “Fund”) was launched in 2017 as a Euro denominated, closed-end Cayman Islands exempted Limited Liability Company. The purpose of the Fund is to invest in income-generating real estate offices in the Eurozone on a Shariah-compliant basis. As of Final Closing Date of December 31st 2018, the Fund had partially acquired interests in joint ventures owning 5 assets (4 in Germany and 1 in Paris) totaling €152 million.

The Fund’s Subscription Amount (cumulative) as of Final Closing Date is **€38.6 million**. The Investors Subscription have been prorated amongst 5 acquired assets and the returns are distributed accordingly from the combined income earned by all assets to ensure parity among the Investors. The main currency of the Fund is the Euro.

Strategic Update

The term of the Fund is 3+1+1 years from the Final Closing Date of December 31st 2018.

This maturity was originally aligned with the completion of asset management plans for each asset and notably the completion of the re-letting plans. However, a series of unforeseen events have disrupted the anticipated exit timeline since 2020, notably the Covid-19 pandemic (March 2020), the Ukraine war (February 2022), and ensuing inflation and significant interest rate hikes (since June 2022). These challenges have exerted considerable pressure on the real-estate markets in the EU and posed challenges to the winding-up plan and impacted the performance of the investments, as exit values and liquidity have been affected in 2023.

In light of the foregoing, the Directors have resolved that it is the best interests of the Fund that the Investment Term run until the date upon which the Fund is placed into voluntary liquidation and the Directors will continue to monitor the Investments for the remainder of the Investment Term.

Net Asset Value (“NAV”) of the Fund

NAV per unit as of December 31st 2023, stood at €67.0 versus €100 as at December 31st 2018.

As of December 31st 2023, the valuation of the assets stood at €143.0 million with an outstanding debt of €89.9 million. Based on ownership of each asset by the Fund, the NAV of the Fund stood at €25.8 million versus an initial NAV of €38.6 million, as of December 31st, 2018. It is important to highlight that the NAV mentioned does not reflect an offered market price, it is only an estimate based on last Fair Market Value assessment as provided by the evaluators. This value might change significantly at the time of the exit in a positive or negative way, especially when considering the brokers’ opinion.

Exit

Despite the economic and commercial challenges, The First Investor (TFI) is continuing to work towards exiting the assets on favourable terms, if possible, and within a period not exceeding one year. The First Investor (TFI) cannot at any time guarantee to Investors that their invested capital will be returned in full or that the Fund will have exited all Investments within one year.

The First Investor (TFI) is working with the strategic partner to facilitate the divestment of two out of the five assets, Hannover and Stuttgart. Agreements with brokers have been signed, defining terms and devising marketing strategies for the two assets. However, it should be noted that challenges may affect the timing of their exit including market to market conditions, interest rates, and other relevant factors.

Efforts are underway to actively enhance the conditions of the remaining three assets, specifically Isenburg, Pantin and Kösching, aligning with the objective to try to optimize, if possible, their value for potential future divestment.

Various exit value simulations have been analyzed, based on exit prices ranging from €136.0 million (brokers' opinions of value) to €143.0 million (last Fair Market Value). Excluding dividend, the NAV which represents the estimated total return to the investors ranges between €25.09 million and €25.86 million. The disposal price assessment shows a significant decrease over the years (-35.06% to -33.05%), mainly due to the real estate market fluctuations and increasing finance costs.

The annualized total return to the investors (including paid dividend) is expected to range from 1.05% to 1.46%, of which 41.76% of the initial contribution has already been paid to the investors in the form of dividends.

Dividend Distribution

For the fourth quarter of 2023, the Fund will reduce the dividend distribution amount, in comparison with previous years. This is mainly due to the decrease in the net income from rental activities, which is primarily driven by increase in debt servicing costs and increase in the capital expenditures requirements. Additionally, reletting expenses and tenant improvement allowances have further contributed to the decrease in the net income. However, the distribution for the fourth quarter will be in line with the distribution made in third quarter of 2023. Furthermore, it is expected that the fund will not be able to distribute any profits during 2024.

Assets Overview

Germany, Neu Isenburg: main tenant Arrow

Occupancy 80% - WALT 4.1 year

- The 20% vacant spaces are presented to all relevant local agents for marketing, with the view to optimize exit value.
- As the maturity of the financing with HCOB was December 2023, a one-month extension was signed until end January 2024, giving time to formally approve and sign the refinancing terms with another lender, DZHYP, willing to refinance EUR21.4M out of the EUR22.8M initial loan amount, the difference being withdrawn from the working capital of the Portfolio.
- Extended ownership implies suspended distributions, as free cash from operations is attributed to increased debt service and reletting expenses (TIs and free periods).
- The Q4'23 FMV (external appraisal) shows a 15% decrease year-on-year at EUR30.4M in its current occupancy status. Brokers indication of value estimated it would trade today for less than Eur28M, about 7.9% below FMV.
- Distribution was put on hold since Q1'23 due to reduced NOI resulting from **partial** extension of main tenant (Arrow) lease in 2023 and refinancing terms (quarterly cash reserve allocations of EUR138k added to the EUR1.4M cash brought upfront).



Germany, Stuttgart: main tenant Daimler Truck

Occupancy 100% - WALT 5.2 year

- New lease was signed with Daimler in August'22, hence our WALT still slightly in excess of 5 years today.
- Further to the loan maturity in May 2023, and after a first loan extension until the end of August 2023, a one-year extension until end August 2024 was signed with the senior lender DZHYP (interest rate stands at 5.4% for Q4 2023), on the same borrowing amount, negotiated against attribution of available cash to the cash reserve of the lender (EUR250k per quarter) and the engagement to sell the asset, which still offers a 5.2-year WALT.
- As anticipated with broker indicative values, the Q4'23 FMV embedded a 45bps cap rate decompression compared to Q2'23 asset appraisal (6.25% cap rate as at Q4'23). The EUR40.1M Q4'23 FMV represents a 13% decrease year-on-year.
- Q1'2023 distribution has been paid up but, because of the new financing terms, all further distributions to investors are stopped to fund the debt service and cash reserve.



Germany, Kösching: main tenant Cariad (Volkswagen Group)

Occupancy 100% - WALT 3.9 year

- While the debt matures end of January 2024 on this asset, the one-year loan extension is already drafted and awaiting execution.
- EUR420k drawdown on the Kosching SHL with each JV partner paid in January 2024, to be allocated to Stuttgart and Isenburg Propco's to fund their refinancing terms. Extended ownership implies suspended distributions, as free cash is attributed to increased debt service (5% indicative interest onwards) and cash reserve.
- The brokers indication of value at about Eur20M shows a 13.4% discount to last Q4'23 FMV of EUR23.1M. This is mostly due to a WALT inferior to 5 years and the fact that the single tenant (Cariad) is highly dependent on the ongoing restructuring of Volkswagen Group, which may cast doubt on lease extension scenario.
- Distribution was put on hold since Q1'23 due to expected refinancing terms.



France, Pantin: multi-let

Occupancy 68.16% - WALT 3.6 year

- In an ever increasingly ESG demanding environment, the installations are energy-intensive and commanding more capex.
- Faced with economic challenges since the pandemic and struggling to achieve performance objectives, intense technical management of the building is needed to optimize scarce resources, to try to keep tenants in place satisfied.
- Shareholders (REIT + Inovalis SA) have invested an additional Eur3M since acquisition to bridge cash shortfall and safeguard going concern of the JV.
- Considering a whole repositioning of the asset (possibly by partnering with a developer), might be the best option going forward to meet all technical and financial challenges.
- Increasing debt service on the lease liability contract, with floating rates above 5% in 2023.
- Considering all the above, distribution was put on hold in early 2022.



Germany, Hannover: main tenant NordLB

Occupancy 100% - WALT 5.1 year

- NordLB gave its early termination notice for the 5th & 6th floor, ending their lease by December 31, 2024, heavily impacting the WALT, however still slightly above the 5-year mark.
- New tenants inquiries under study for 2 floors presently occupied by NordLB, which could strengthen the overall WALT.
- To secure a one-year extension of the PostBank financing which was maturing end of December 2023, a broker mandate has been signed with local brokers (JLL and Advenis Germany) to market the property at a minimum targeted price of EUR26M, 5% below Q4'23 FMV (best price offered in non-solicited offers received in Q1'23, which is the value assumed in our sensitivity analysis to date, following a previous marketing effort started in Q4'22).



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