

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, hence December 31st 2023, marks the maturity date of the Fund.

This maturity was originally aligned with the completion of asset management plans for each asset and notably the completion of the re-letting plans. A series of unforeseen events has challenged that exit timing since 2020, mainly: the Covid-19 pandemic (March 2020), the Ukraine war (February 2022) and the ensuing inflation and dramatic increases in interest rates (since June 2022). These challenges have put pressure on the real-estate markets in the EU and jeopardized the winding-up plan and performance of the investments, as exit values and liquidity have been affected in 2023.

Net Asset Value (“NAV”) of the Fund

NAV per unit as of September 30th 2023, stood at €82.1 versus €100 as at December 31st 2018.

As of June 30th, 2023, the valuation of the assets stood at €153.7 million with an outstanding debt of €89.5 million. Based on ownership of each asset by the Fund, the NAV of the Fund stood at €31.7 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

The Investment Manager and Asset Manager have jointly initiated steps to assess the best possible trade-off for a full or partial exit of the Fund’s investments. However, this will require extension of the Fund term. As such we anticipate a minimum extension of one year to the holding period. However, even with the extension we cannot assure that the investor’s capital can be returned in full as it is subject to the exit price of the assets.

Various exit value simulations have been analyzed, based on exit prices ranging from €140.2 million (brokers' opinions of value) to €153.7 million (last Fair Market Value). Excluding dividend, the NAV which represents the estimated total return to the investors ranges between €26.2 million and €31.7 million. The disposal price assessment shows a significant decrease over the years (-32.1% to -17.9%), 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 1.5% to 4.4%, of which 40.0% of the initial contribution has already been paid to the investors in the form of dividends.

Dividend Distribution

For the third 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.

Assets Overview

Germany, Neu Isenburg: main tenant Arrow

Occupancy 80% - WALT 4.36 year

- The 20% vacant spaces are already presented to all relevant local agents for marketing, with the view to optimize exit value and refinancing terms, knowing that senior debt is maturing in December 2023.
- Options for short to long term loan extension are under review (meetings planned at Expo Real this October with banker).
- Extended ownership implies suspended distributions, as free cash from operations shall be attributed to increased debt service and reletting expenses (TIs and free periods).
- As per brokers indication of value, the asset in its current occupancy status would trade today for less than Eur28M, about 15% 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.



Germany, Stuttgart: main tenant Daimler Truck

Occupancy 100% - WALT 5.55 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, a first loan extension was granted by the senior lender DZHYP until the end of August 2023 (interest rate stands at 4.519% for June and July 2023).
- As the initial asset management plan has been completed with the 100% letting of the asset to Daimler Trucks in August 2022, DZHYP has agreed to a new 12-month extension, which buys enough time to consider the asset disposal.
- The brokers indication of value under Eur41M, ie 8% below the FMV, is consistent with present investment market conditions and reflect the 5.5-year WALT of the asset, which now offers a window to market the asset. This opportunity will fade if WALT goes below 5-y.
- Q1'23 has been paid and further distributions are put on hold, due to terms of senior loan extension from Oct'23.



Germany, Kösching: main tenant Cariad (Volkswagen Group)

Occupancy 100% - WALT 4.14 year

- While the debt maturity is short on this asset (January 2024), options for short to long term loan extensions are under review.
- Extended ownership might imply lower or suspended distributions, as free cash shall be attributed to increased debt service and cash reserves that might be requested by lender in case of Cariad departure at maturity of their lease.
- The brokers indication of value at about Eur20M show a 20% discount to FMV. 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 terms.
- Distribution was put on hold since Q1'23 due to upcoming refinancing maturity.



France, Pantin: multi-let

Occupancy 68.16% – WALT 3.64 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.
- Considering all the above, distribution was put on hold in early 2022.



Germany, Hannover: main tenant NordLB

Occupancy 100% - WALT 6.25 year

- WALT is 6.25 but WALB is shorter as NordLB informed us they will exercise their break option for last 2 floors of its subtenant Sparkasse, effective end 2024.
- Extended ownership will therefore imply suspended distributions, as free cash from operations shall be attributed to increased debt service and reletting expenses (TIs and free periods) for the 2,000 sqm that will be empty by end 2024 (budget under preparation, est. Eur500/sqm minimum).
- Marketing effort in Q4'22 on that asset failed to deliver serious offer at FMV (Eur32M at the time).
- Best non-solicited offer in H1'23 at about Eur26M, which is the value assumed in our sensitivity analysis today.



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