

TFI-EU Property Income Fund



The following report presents an update in relation to your investment in TFI-EU Property Income Fund (“Fund”) as of March 31st, 2024.

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 and 2024.

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

Estimated NAV per unit as of March 31st 2024, stood at €67.8 versus an initial NAV per unit of €100 as at December 31st 2018.

As of March 31st 2024, the valuation of the assets stood at €143.0 million with an outstanding debt of €88.4 million. Based on ownership of each asset by the Fund, the NAV of the Fund stood at approximately €26.2 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 finalized, defining terms and devising marketing strategies for the two assets. With regards to Hannover, there was a higher interest from potential buyers when compared to Stuttgart of which the process is moving at a slower pace. 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 €135.0 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 €22.6 million and €26.2 million. The disposal price assessment shows a significant decrease over the years (approximately -41.4% to -32.2%), 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 -0.3% to 1.6%, of which 41.8% of the initial contribution has already been paid to the investors in the form of dividends.

Dividend Distribution

For the first quarter of 2024, the Fund will not distribute dividends. 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, refinancing terms, and tenant improvement allowances have further contributed to the decrease in the net income. 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 3.75 years

- The 20% vacant spaces are presented to all relevant local agents for marketing, with the view to optimize exit value.
- In February 2024 the refinancing of the mortgage loan with another lender, DZHYP, which was willing to refinance EUR21.4M out of the EUR22.8M initial loan amount was signed, the difference being withdrawn from the working capital of the Portfolio.
- Distributions was suspended, as free cash from operations decreased due to the increase in debt services and reletting expenses (TIs and free periods), as well as cash reserve allocation (€550k annually).
- Until we reduce the 20% vacancy that resulted from the extension renegotiation of the single tenant Arrow, a sale of the asset seems difficult, even more as the location shows little traction on the investment side for now.
- Loan maturity by end Feb'25 will most probably require an additional extension.
- 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 (cash reserve allocations added to the EUR1.4M cash brought upfront).



Germany, Stuttgart: main tenant Daimler Truck

Occupancy 96% - WALT 5.11 years

- 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 Q1 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.
- Broker mandate signed in Jan'24 with Immoraum to sell the property (target price EUR40M, in line with Q4'23 appraisal), with little progress to date.
- The investment market is very sluggish and brokers' feedback implies that we would rather try to waive some of Daimler's lease break options before pursuing the marketing effort. 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 3.67 years

- A one-year loan extension was signed in February, with floating interest rate (5.4% indicative) and €420k p.a cash reserve allocation.
- Extended ownership implies suspended distributions, as free cash is attributed to increased debt service and cash reserve.
- Until we can start discussions with the single tenant Cariad to extend their lease this Autumn, a sale of the asset seems difficult, for fear of a > 20% discount.
- Decision about the arbitrage will be driven by the extension negotiations of the loan which matures end Jan'25.
- A marketing effort is being prepared, in order to assess a potential exit value in anticipation of Jan'25 debt maturity, under the assumptions that Cariad may or may not confirm a lease extension by early Q4'24.
- Distribution was put on hold since Q1'23 due to expected refinancing terms.



France, Pantin: multi-let

Occupancy 68.16% - WALT 3.44 years

- 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 Eur3.8M since acquisition to bridge cash shortfall and safeguard going concern of the JV.
- A prospect tenant showed interest on 2,300 sqm but with high expectations in terms of TI's and capex requirements.
- As the asset's Net Operating Income (NOI) barely covers debt service, General & Administrative expenses, and Tenant Improvements, discussions with the senior lender are being considered. The aim is to negotiate a short-term standstill and a waiver on amortizations to allow time for:
 - a comprehensive repositioning of the asset, potentially involving its sale to a developer, or alternatively, if successful reletting achieves at least 85% occupancy, its disposal to a long-term investor, which could be more or less "opportunistic."



Germany, Hannover: main tenant NordLB

Occupancy 100% - WALT 4.86 years

- NordLB gave its early termination notice for the 5th & 6th floor by December 31, 2024, heavily impacting the WALT, however still just slightly below the 5-year mark.
- Main tenant NordLB has manifested its intention to leave the premises by end 2024, thus potentially forgoing its obligation to fulfill the lease contract until its effective term.
- To secure a one-year extension of the PostBank financing which matured Dec'23, a marketing mandate has been signed with local brokers JLL and Advenis Germany to market the property at a minimum targeted price of EUR26M, i.e. 5% below Q4'23 FMV.
- An indicative offer was received at €25m which was considered serious enough to grant an exclusivity and a due diligence period starting in May'24
- The objective is to obtain a binding confirmation within the next 5 weeks and the signing of an SPA by July'24.



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