

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 June 30th, 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 June 30th 2024, stood at €65.1 versus an initial NAV per unit of €100 as at December 31st 2018.

As of June 30th, 2024, the valuation of the assets stood at €139.7 million with an outstanding debt of €88.2 million. Based on ownership of each asset by the Fund, the NAV of the Fund stood at approximately €25.1 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. With regards to Hannover, in Q2 2024, an exclusivity period was granted to a prospective buyer, based on their €25m indicative offer, to perform their due diligence, as they intend to turn the building into a public school. However, a sale and purchase agreement has not been signed to date, as the prospective buyer’s final decision depends on conditions outlined in the asset overview section below. In light with the delays from the prospective buyer, discussions were initiated with another prospective buyer who expressed interest in the building. Furthermore, it is important to note that NordLB gave its early

termination notice for their lease by December 31, 2024 and negotiations are ongoing to secure compensation for early termination.

With regards to Stuttgart, marketing efforts was put on hold as there was little traction in the local investment market in the first half of 2024, and the few prospects were concerned about the break options in Daimler Truck lease agreement. Therefore, negotiations for the waiver of these break options are currently ongoing, with discussions proving to be positive and constructive. The aim is to restart the marketing effort by end of Q3 2024. 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 €134.1 million (brokers' opinions of value) to €139.7 million (last Fair Market Value). Excluding dividend, the NAV which represents the estimated total return to the investors ranges between €22.4 million and €25.1 million. The disposal price assessment shows a significant decrease over the years (approximately -41.8% to -34.9%), 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 -0.4% to 0.9%, of which 41.8% of the initial contribution has already been paid to the investors in the form of dividends.

Dividend Distribution

For the second 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 3.5 years

- A one-year loan extension was signed end of January 2024, with a floating interest rate (5.5% indicative) and €550k p.a cash reserve allocation. An extension until end '25 is being discussed with the senior bank DZHyp (which also finances Kösching and Stuttgart) as the high LTV of this asset (75%) might imply further deleveraging or partial collateralization with another asset.
- 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 (€550k annual cash reserve allocations, on top of the €1.4M upfront deleverage upon extension).
- The 20% vacant spaces are presented to all relevant local agents for marketing, with the view to optimizing exit value.
- Mid-July '24, BS Consult, a prospect tenant, showed interest in the 226 sqm areas previously occupied by VierBrockhaus (maturity in May 2025 but the already left the building) for a 5-year lease contract.
- Until we reduce the vacancy to 10% or less, a sale of the asset seems difficult, even more so as the location shows little traction on the investment side for now.



Germany, Stuttgart: main tenant Daimler Truck

Occupancy 100% - WALT 5.0 years

- Further to the loan maturity in May '23, a one-year extension until end Aug '24 was signed with the senior lender DZHYP (interest rate stands at 5.4%), borrowing amount unchanged, negotiated against attribution of available cash to the cash reserve of the lender (EUR250k per quarter) and the engagement to sell the asset.
- Due to the new financing terms, all distributions since Q2'23 are stopped to fund the debt service and cash reserve.
- Broker mandate signed in Jan'24 with Immoraum to sell the property (target price EUR40M, in line with Q4'23 appraisal).
- Marketing was put on hold as there was little traction in the local investment market in H1'24, and the few prospects were worried about the May '27 and May '28 break options in Daimler Truck lease.
- We are negotiating the waiver of these 2 break options, which would reset WALB to 5 years.
- Our aim is to restart the marketing effort before next Oct '24 Exporeal Real Estate Fair.



Germany, Kösching: main tenant Cariad (Volkswagen Group)

Occupancy 100% - WALT 3.4 years

- A one-year loan extension was signed in Feb'24, with a floating interest rate (5.4% indicative) and €420k p.a cash reserve allocation.
- Since Q1'23, we had anticipated that extended ownership would imply suspended distributions, as free cash is attributed to increased debt service and cash reserve.
- Discussions with the single tenant Cariad to extend their lease are scheduled this Autumn, for a decision end of 2025. We are also considering their request to build and finance additional parking boxes on our plot.
- Marketing of the asset is driven by the outcome of these extension negotiations, which would prevent a > 20% discount foreseen in case of a sale of the asset with a sub-5-year WALT.
- As the loan matures end Jan'25, an extension until end '25 is already under discussion with our bank DZHyp.



France, Pantin: multi-let

Occupancy 68.16% - WALT 3.1 years

- In an ever increasingly demanding ESG environment, our 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 Eur4M since acquisition to bridge cash shortfall and safeguard going concern of the JV.
- Negotiations with the prospect tenant interested in 2,300 sqm (half of total vacant areas) are still ongoing, with TI and incentive requirement subject to the senior lender funding approval.
- As the NOI barely covers debt service, General & Administrative expenses, and Tenant Improvements, discussions with the senior lender aim 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 4.6 years



- 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, but coherent with the 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 in Q4'22.
- In the meantime, NordLB gave its early termination notice for their lease by December 31, 2024, on dubious legal grounds. This termination is legally challenged by Management, although it is an opportunity to sell to the most aggressive bidders, interested in converting the building if empty.
- In May '24, an exclusivity period was granted to the bidder Accom, based on their €25m indicative offer, to perform their due diligence, as they plan to convert the soon-to-be-empty building into a public school.
- The signing of an SPA is subject to:
 - o Finalization of negotiations about NordLB departure and the financial indemnification they would owe us;
 - o Imminent confirmation by local authorities to Accom of the attribution of a public school to our building, which is their main condition precedent to the signing of an SPA.
 - o Agreement by our senior lender regarding the final terms and conditions of a transaction.
- Since the approval by the local authorities is taking time, discussions with other potential investors have started.

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