

## 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 September 30<sup>th</sup>, 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 31<sup>st</sup> 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 31<sup>st</sup> 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 September 30<sup>th</sup> 2024, stood at €65.8 versus an initial NAV per unit of €100 as at December 31<sup>st</sup> 2018.

As of September 30<sup>th</sup>, 2024, the valuation of the assets stood at €139.7 million with an outstanding debt of €86.3 million. Based on ownership of each asset by the Fund, the NAV of the Fund stood at approximately €25.4 million versus an initial NAV of €38.6 million, as of December 31<sup>st</sup>, 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 asset and property manager to facilitate the divestment of two out of the five assets, Hannover and Stuttgart. With regards to Hannover, sale processes were initiated with prospective buyers, Accom and Luxbesitz. In Q3 2024, the sale process with Accom did not progress due to their inability to obtain the necessary approvals. Additionally, in Q3 2024, we engaged with Luxbesitz; however, they were unable to secure the necessary financing to complete the transaction. Currently, there is a new bidder interested in the asset, offering €22m with the intention to sign the SPA by the end of March 2025. However, it is important to note that the prospective buyer is unwilling to provide a deposit but is willing to submit a binding financing term sheet. Furthermore, it is important to note that the tenant has terminated the contract and will be leaving by December 2024. As such, it is important to highlight that, with the tenant's early termination, the asset expected to be vacant

until new tenant is secured, and the bank's requirements for refinancing, there is a significant risk that, if the transaction with the prospective buyer does not materialize, the bank may take control of the asset and explore alternative exit strategies, such as auctioning the asset, due to the company's inability to generate sufficient cash flow to meet its financial obligations.

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. After several rounds of negotiations with Daimler Truck, the break options were successfully waived, thereby resetting the WALT to a fixed 5-year period. The aim is to restart the marketing effort by the first half of 2025. 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 €132.1 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 €21.6 million and €25.4 million. The disposal price assessment shows a significant decrease over the years (approximately -44.1% to -34.2%), 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 -0.8% to 1.0 %, of which approximately 41.8% of the initial contribution has already been paid to the investors in the form of dividends.

#### **Dividend Distribution**

For the third 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, increase in the capital expenditures requirements, and the bank 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 3.3 years

- Successful extension of the in-place mortgage loan signed end of October 2024, and is now maturing end of February 2026.
- Distribution was put on hold since Q1'23 due to reduced NOI resulting from **partial** (80%) extension of main tenant (Arrow) lease in 2023 and refinancing terms (full cash trap, cash reserve allocations, on top of the €1.4M upfront deleverage upon previous extension in January 2024).
- The 20% vacant spaces are presented to all relevant local agents for marketing, targeting a minimum 85% occupancy to facilitate the disposition of the asset.
- 4 potential tenants showed interest on 225-to-400 sqm vacant areas. Tenant incentives and offers, if any, are expected in the near future.
- Until we reduce the vacancy to 15% or less, a sale of the asset seems difficult, even more so as the location shows little traction on the investment side for now.
- Acceleration of sale process contingent to significant discount to Q2'24 valuation. (FMV €28.7M vs Broker's opinion €27.8M)



### Germany, Stuttgart: main tenant Daimler Truck

Occupancy 100% - WALT 4.7 years

- The in-place mortgage €24.6 million mortgage loan initially matured end of August 2024 but was further extended to February 2026 in October 2024.
- Quarterly €180k allocation to the cash reserve of the lender.
- Q1'2023 distribution has been paid up but, because of the new financing terms, all further distributions are stopped to fund the debt service and cash reserve.
- Marketing effort suspended in June 2024, as potential investors were seeking reassurance from Daimler Truck in its commitment to the location.
- We have managed to waive the '27 and '28 break options, thus resetting the WALT to a fixed 5-year, and will now try to extend that lease further, to increase the "marketability" of that single tenant (auto industry) asset.
- Based on our exchanges with market players at Exporeal, we should only be able to start marketing the asset in Q2 2025.



### Germany, Kösching: main tenant Cariad (Volkswagen Group)

Occupancy 100% - WALT 3.2 years

- 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 (€130k quarterly)
- Meeting with single tenant Cariad took place on Sept 30<sup>th</sup> 2024, further to Rivian acquisition by VW. Any decision of a lease extension (maturity Nov'27) is deferred to Q1'25, after which a marketing effort could start, whether Cariad decides to extend or not (but obviously with a major impact on the exit value).
- Financing extension until Feb 28, 2026 granted on Oct 31st, 2024.
- Acceleration of sale process contingent to significant discount to Q2'24 valuation. (FMV €22.0M vs Broker's opinion €20.0M)



### France, Pantin: multi-let

Occupancy 63% - WALT 3.5 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 France Domaine 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.
- France Domaine came back with a counter-offer with reduced rent and increased incentive (free rent), compromising final lease approval.
- Latest Oct'24 news: in the same back building, elevated risk of early lease termination by Regus (6% occupancy),
- Several exchanges with developers from early September to assess the value of the back building alone (if empty) or the bundle of the front (fully let) and back one and start a sales process. This would favor letting Regus go and not signing with France Domaine,
- Alternatively, fire sales at/below debt level could start imminently.





**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.
- After several sale processes initiated with Accom and Luxbesitz, they successively could not bridge the financing of the transaction.
- New bidder is Mr. Legacis (advised by JLL Hanover): offer at €22m with signing of SPA end of March 2025 without deposit but with a binding financing term-sheet that he could execute.
- On the letting side, NordLB gave its early termination notice for their lease by December 31, 2024 and we collect the €2m indemnity that was immediately used to deleverage the Postbank mortgage loan (now amounting to €12m).



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