



PRESS RELEASE

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ILAM FAHARI I-REIT UNVEILS ITS AUDITED FINANCIAL RESULTS FOR FY 2021

Financial highlights for the 12 months ended 31 December 2021

<i>Details</i>	<i>2021</i>	<i>2020</i>	<i>% Change</i>
<i>Net (loss)/profit for the year (KShs)</i>	(123,951,010)	148,025,114	>-100%
<i>Rental and related income (KShs)</i>	297,549,052	341,156,587	-13%
<i>Interest Income</i>	25,664,245	22,412,016	14.5%
<i>Property expenses</i>	122,048,628	130,361,698	6%
<i>Fund operating expenses</i>	107,499,674	99,249,948	-8%
<i>Fair value adjustment</i>	(225,924,281)	13,604,197	>-100%
<i>Distributable earnings (KShs)</i>	101,973,271	134,420,917	-24%
<i>Market value of property portfolio (KShs)</i>	3,258,000,000	3,481,400,000	-6%
<i>Net asset value per unit (KShs)</i>	19.58	20.86	-6%
<i>Distribution per unit (KShs)</i>	0.50	0.60	-17%
<i>Portfolio vacancy rate</i>	20.1%	13.2%	-52%

ILAM Fahari I-REIT's **net earnings** for the year ended 31st December 2021 declined to a loss of **KShs 124.0 million** compared to a profit of **KShs 148.0 million** in 2020.

It was reported that the reversal was mainly attributable to revaluation losses recorded by the property portfolio in the context of the COVID-19 pandemic, whose impact continues to be a material valuation uncertainty in the short to medium term.

In addition, there was an increased vacancy at Greenspan Mall resulting from Naivas, the new anchor tenant, taking up a smaller space; 37% of the Gross Lettable Area (GLA) compared to that previously occupied by Tuskys, (the former anchor tenant), contributing to a further devaluation. The previous anchor tenant occupied 48% of the Gross Lettable Area (GLA), which accounted for about 40% of the rental income collected. It is worth noting that the remodeling of the anchor tenant's store was a strategic decision by the REIT Manager to reduce concentration risk and will ultimately have a positive impact once the remaining space is leased out.

Distributable earnings declined by 24% to KShs. 102.0 million compared to KShs. 134.4 million in the comparative period in 2020. The reduction was mainly attributable to the loss of revenue from the anchor tenant for the first seven months of the year under review.

Rental and related income decreased by 13% mainly due to the reason explained above in addition to an increased vacancy at Greenspan Mall.

Property expenses decreased by 6% mainly due to a significant reduction in provisions for bad and doubtful debts. This was, however, offset by increased provisions in irrecoverable withholding tax by the tenants.

Commenting on the financial results, **ILAM Fahari I-REIT's CEO Mr. Einstein Kihanda said:** *"Having taken over the management of the REIT on 18th May 2020, during unprecedented times, we are pleased with the resilience of the ILAM Fahari I-REIT's earnings for the year ended 31st December 2021. The real estate market continues to be impacted by the COVID-19 pandemic and economic downturn with most sectors, retail in particular, suffering immensely. This was exacerbated by the development boom witnessed over the past decade, which has put downward pressure on rentals and average rates in the office, residential, hotel, and retail markets, especially in Nairobi where the bulk of these developments are concentrated. Increased supply over the years has caught up with and surpassed demand, resulting in the current "buyer's" market, with landlords having to contend with offering tenant incentives to boost occupancy. In the retail sector, the situation has been exacerbated by the financial stress that some tenants have experienced leading to closures and downsizing".*

ILAM Fahari I-REIT indicated that the year was particularly challenging owing to the financial difficulties experienced as a result of the failure of the anchor tenant at Greenspan Mall, amid the COVID-19 pandemic, having distressed Tuskys in November 2020. This resulted in a direct loss of revenue but also occasioned reduced footfall in the mall and low collections from the rest of the tenants. Consequently, the REIT Manager onboarded Naivas as the replacement anchor tenant with rental income accruing from August 2021. Better performance and increased foot traffic is expected going forward, after the new anchor tenant opened their store in February 2022.

The REIT Manager continues to put effort into the **management of fund costs** in order to maximize returns. Trading conditions continue to be tough and the market is still a tenant's market. However, the portfolio has shown resilience with leases being renewed at reasonable rates and a well-spread lease expiry profile. Vigorous marketing activity is ongoing to attract suitable targeted tenants for the vacant spaces.

On the **regulatory front**, the REIT manager indicated that it was pleased to confirm that it had secured exemption from income tax for the investee companies following their registration with KRA in line with tax regulations. The exemptions have been procured pursuant to Section 20(1)(d) of the Income Tax Act, which provides that investee companies of a Real Estate Investment Trust shall also be exempt from income tax, including the withholding taxes payable on income received by the investee companies. The successful procurement of the tax exemption is expected to eradicate any further provisioning for irrecoverable withholding tax, which has been a tax leakage in the past. This saving will be passed on directly to the unitholders going forward.

On the **strategic front**, the REIT Manager and the Trustee have carried out a strategic review, which if approved and implemented, may involve an operational restructuring of the REIT. The completion of the process is subject to, inter alia, regulatory and unitholder approvals. A detailed announcement including all the relevant information on the proposed process will be available on the I-REIT's website www.ilamfahariireit.com at an appropriate time.

In light of the challenges, the Board recommended, and the REIT Trustee approved, a distribution which is slightly lower than the prior year. A first and final distribution of **KShs 0.50** per unit will be paid to unitholders no later than 30th April 2022. This amounts to a payout ratio of **89%**.

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