



Eskan Bank Realty Income Trust – The 2019 Year and an Outlook to 2020

Eskan Bank Realty Income Trust (“EBRIT” or the “Trust”) regularly publishes updates through the Bahrain Bourse and through local media notifications pertaining to the Trust’s distributions, property valuation reports, audited financials, and other matters. In view of the developments that took place during 2019, the Trustee and the Investment Manager are providing this additional update on the status of the Trust over the 12-month period of 2019 along with an outlook of the near future.

Dear Unitholder,

With 2019 concluded, we would like to update you on the major events that affected EBRIT and provide a general outlook into 2020. As you may recall, EBRIT was listed on the Bahrain Bourse on 2 January 2017 and has since been the only publicly tradeable Real Estate Investment Trust (“REIT”) in the Kingdom. The Trust owns a diversified portfolio of offices, residential apartments, and shops in two locations in Bahrain, namely Segaya, Manama and Isa Town, within the respective developments known as Segaya Plaza and Danaat Al Madina. Since its establishment as a Shari’ah-compliant REIT, the Trust has not utilized any debt, and has successfully paid out 6% in net distributions to unitholders, in each of 2017 and 2018.

Segaya Plaza, Segaya, Manama

The 2019 year was a challenging year for the Trust as the single tenant of its 105 residential apartments in Segaya Plaza terminated its lease as of May 2019, for the sake of implementing cost cutting measures. We were subsequently required to initiate a comprehensive refurbishment project to the property to ensure the property stands out and attracts tenants, especially in such a competitive market. We subsequently re-offered the apartments for rental in the open market within just 10 weeks, starting in August 2019.

The refurbishment included repainting the common areas and the apartments, refurbishing, upgrading appliances, and upgrading the communal facilities of the property including the roof-top swimming pool and gym area. Energy efficiency enhancements were also implemented, with a full replacement of conventional lighting to LED and the use of automatic timers.

To date and within five months from reintroducing the property to the market, we are pleased to state that 41 apartments have been rented out to 41 independent tenants, diluting the concentration risk of any single tenant defaults or terminations that the property was previously



subjected to. Rental rates for the apartments have also remained largely in line with the rates charged to the previous tenant. The property's 15 shops witnessed some turnover in its tenants as well, stemming from the significant new supply of retail units both nearby and across Bahrain, which has resulted in an approximate 30% reduction in headline rents for these shops. We still maintain a 100% occupancy of the shops but headwinds continue to result in tenant turnover and pressure on unit rental rates.

Danaat Al Madina, Isa Town

The Trust's ownership in Danaat Al Madina consists of 44 retail units and two office buildings. In 2019, 73.5% of the shops were occupied and 94.6% of the office buildings were occupied. While the office buildings have done well, rental rates for shops in the area remain a challenge with headline rents for certain retail units being discounted by around 60%. The nature of this project attracts a lot of first time businesses, along with the cash flow challenges that such enterprises bring to the Trust. We continue to work with the property managers, Savills, to support the tenants and ensure timely payments are received. The property is also actively marketed on property websites and through on-site signage. We have continued to work closely with the property's home owners' association, to avail of synergies on costs and to ensure fair representation for the retail and commercial units owned by the Trust.

The General Environment

Bahrain's economy continued to grow in 2019, with GDP growth estimates placed at 2.1% for the year. This growth was likely driven by a number of factors including stabilized oil prices and a large number of infrastructure projects including a new airport, Alba's expansion, numerous new highways, a new LNG terminal, the national airline's upgrade, the construction of a number of retail and residential projects (Marassi, Dilmunia, Liwan, Diyaar etc.), among others.

Importantly, Bahrain expects its 2020 GDP to grow by a further 2.7%, led by the continuation of these projects as well as new projects such as the new causeway to Saudi Arabia, development work on a metro for the Kingdom, BAPCOs refurbishment and further development on Bahrain's off-shore shale oil. However, the positive growth was also simultaneously balanced by strict fiscal consolidation towards the country's Fiscal Balance Programme, that aims to significantly reduce or eradicate Bahrain's fiscal deficit. These measures included the removal or reduction of certain food subsidies, petrol subsidies and electricity and water subsidies as well as the introduction of value added tax (VAT). The general result reduces the average spending power and therefore puts



downward pressure on retail sales and ultimately a retailer's ability to pay certain rent. The same holds true for households renting apartments given the higher energy bills and staple costs.

Downward purchasing power along and the significant new supply of residential and retail properties in the Kingdom create dual downward price pressure on rental rates. We are confident however that the niche locations of the Trust properties provide a certain level of immunity to the properties' performance vis-a-vis new construction, given the new supply locations are far and away and given the immediate proximity of Segaya Plaza to a large number of stable employers including universities and hospitals and Danaat's nearness to large residential communities with no office space alternatives. Finally, and on a macro level, the seemingly endless regional and global issues have also not been supportive of growth with issues ranging from trade restrictions, Brexit, pandemics, and so on.

Additional Initiatives

With the current residential occupancy of Segaya Plaza standing at 39% and Danaat Al Madina at 86% the management team is focusing on additional ways to boost occupancy and to further reduce operational and overhead costs to free up funds for distribution.

The management team intend to once again re-tender supplier services provided to the Trust and its assets with the objective of generating new revenue enhancing ideas and reducing costs while maintaining the quality of the properties.

Finally, and working closely with the property manager, we are intensifying our efforts in creating attractive pricing structures for the properties to continue to improve the occupancy rate and to retain tenants for the longer term.

Valuation

As per the regulatory requirements for REITs in Bahrain, the Trust replaced its independent property appraiser in 2019, following two years of simultaneous valuations. Knight Frank was appointed as the new property appraiser in June 2019 following a wide bidding process. EBRIT's properties undergo valuations twice each year, on June 30 and December 31. In June 2019 and given all the negative changes that were highlighted above, the independent appraisal reports for Segaya Plaza and Danaat Al Madina were significantly impacted with a reduction of approximately 50% in the fair value of Segaya Plaza and approximately 20% in the fair value of Danaat Al Madina.



With the initiatives undertaken by EBRIT's management, the most recent valuation undertaken for 31 December 2019 and only six months following the reduced valuations resulted in increases of approximately 15% in the valuation of Segaya Plaza and approximately 12% in the valuation of Danaat Al Madina. The Trust's board of directors opted to take a conservative view and reflect only half of this improvement in the Trust's 2019 year end financials in light of any additional headwinds that may occur in 2020.

Distributions

With the Trust's annual audit now concluded, we are also pleased to announce a distribution of 2% for the year 2019 equating to BD 0.002 per unit, following a decision of Eskan Bank B.S.C (c) (as Investment Manager) to provide a performance supplement from the income that will be received on its Locked-up Units equating to BD66,809. Distributions will be made to the unitholders on the register of the Trust as of Wednesday 11 March 2020 (the "Record Date") and unitholders will receive their payments on 17 March 2020 either by collecting their cheques from the offices of the paying agent (Karvy) or through wire transfers for those unitholders who have previously elected to receive distributions in this way.

In conclusion, we thank you for your continued trust in EBRIT and we continue to commit to maximizing unitholder value and distributions in spite of the challenging environment and we look forward to a more rewarding year in 2020.

Sincerely,

Bashar Bazian
Chairman of the Board of Directors of the Trust

Ahmad Tayara
On behalf of the Investment Manager