



## **Eskan Bank Realty Income Trust – Navigating through 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 March 2020 the Trustee and the Investment Manager wrote to Unitholders and provided a summary of the events that took place during 2019, which included an outlook on 2020. This was in addition to the information disclosed at the Annual General Meeting held on 22 April 2020 and the Ordinary General Meeting held on 14 June 2020.**

**This letter is a further update on the status of the Trust and provides a summary of the events that took place over the last 6 months, along with an insight of the actions undertaken by the Trust management to overcome the difficulties faced during the first half of 2020.**

Dear Unitholder,

With the spread of COVID-19 virus, the last six months has witnessed major disruption globally. Countries had to undergo lockdowns and governments had to make budget shifts to support their economies and combat the spread of the virus. The economy of the Kingdom of Bahrain is forecasted to contract in 2020, which is combined with declining oil prices and a slowdown in real estate transactions. Fortunately, the Government of Bahrain did not impose a complete lockdown on the country. Partial closure of non-essential business activities was imposed from April, together with certain services or businesses being stopped to prevent further increase of the virus spreading, and some of these measures are still in place today. Many landlords across the country agreed to provide different rent relief packages as a support mechanism to their tenants.

Over the past few years, the retail market in particular has been undergoing transformation as consumer purchasing behaviours change. This is highlighted by the rise of omni-channel retailing and online only offerings such as Amazon and Noon. As the world attempts to return to normality with some restrictions and caution, the short-term impact of COVID-19 on businesses is still ongoing with slower demand and change in not only consumer purchasing behaviours but consumer behaviour in general. The latter is likely to have a long-lasting impact on the retail sector in how retailers and consumers alike behave.

There is currently no clear picture on what the long-term impact of COVID-19 will be to the real estate market in Bahrain. However, there is likely to be rent corrections across most sectors as the size of the respective tenant pools reduces, thus affecting demand. It is expected that the number



of businesses that cease operations will continue to rise which will have consequential impacts across the market. Landlords should take this time to be innovative and provide an offering to succeed in a market which is facing a supply/demand imbalance and is likely to remain as such for the foreseeable future.

Regardless of the challenges faced globally and locally, the strategy adopted by EBRIT management in 2020 resulted in cost reduction, increase in occupancy, and enhancement in collection levels.

### **Ordinary General Meeting of Unitholders (“OGM”) held in June 2020**

The Trustee organized an OGM on 14 June 2020, to seek the Unitholders’ approval on a COVID-19 related relief package to be given to the tenants of the Trust. Five options were provided to the Unitholders to select from and these options ranged from providing a three month rent waiver to impacted tenants, which was the extreme case scenario, to an option of not granting any kind of rent support. The Unitholders were asked to make their decision and consider a temporary loss of income in the short-term, compared to potential loss of future income, should the tenants go out of business or decide to vacate their units.

The Unitholders approved a relief measure, in which it gave the Investment Manager the flexibility to provide certain tenants with a relief package based on their level of impact related to COVID-19. The relief measures were either a rent waiver, a temporary rent reduction, or a temporary rent deferral, for a varying period of one to three months. The relief measure was structured on a conservative approach and was given on a case by case basis, based on the recommendation of the Property Manager and Investment Manager.

### **Segaya Plaza (“SP”)**

Following a comprehensive refurbishment of the interior of the building and common areas, which included the refurbishment and refurnishing of apartments, upgrading appliances, and the upgrade of the communal facilities of the property including the roof-top swimming pool and gym area, during a 10 week period between May and August 2019, SP apartments were offered for rent in the open market.

In our previous letter of communication published in March 2020, 41 out of the 105 residential apartments were let to 41 independent tenants. Despite the challenging times witnessed with the spread of COVID-19, the leasing team in Savills, were able to let an additional 28 apartments



between the end of March and the end of September 2020, which has raised occupancy in SP apartments to circa 66%. During the same period, the retail units witnessed some tenant turnover and two units were leased to a new tenant, while one unit remains vacant. This has resulted in an occupancy rate of 93% for the retail units and as a result, the combined occupancy rate at SP as of end of September stood at 69%.

Multiple rent reduction and rent waiver requests were received from the tenants in SP during the second quarter of 2020. With the EBRIT management following a conservative approach and the screening process undertaken by the Property Manager, circa BD14,700 of rent waivers were given to eligible tenants.

### **Danaat Al Madina (“Danaat”)**

The overall occupancy at Danaat remained stable during the period, with a combined occupancy rate of circa 88% as of end of September 2020. Many of the tenants in Danaat were significantly impacted with disruption of business that was faced by most retail tenants in Bahrain. Circa BD23,400 of rent waivers were given to the tenants that qualified for a relief package, while some tenants still need to provide further evidence of being negatively impacted by COVID-19 to qualify for a relief.

We continue to work with the Property Manager, Savills, to enhance the occupancy in Danaat and generate additional footfall to the property which in turn will enhance the revenue of the retail units and their ability to continue operating from the property.

### **Additional Initiatives**

In an effort to enhance Unitholder returns and the Trust’s liquidity position, the Investment Manager has initiated a strategy to reduce overhead and operational costs where possible without jeopardizing the services provided to the Trust and its properties. To lead by example, the Investment Manager along with the Sub-Investment Manager, SICO, reached a mutual agreement to terminate the services of the Sub-Investment Manager. As a result, the Investment Manager reduced the annual investment management fee, which was shared between ESKAN Bank and SICO, from BD50,000 to BD 15,000. This represents a 70% reduction in Investment Management fees.

The engagement of the external auditor for the Trust is renewed every year and the Trustee decided to retender the role of the external auditor. Upon the conclusion of an extensive tender process,



KPMG were appointed as the new auditors for EBRIT. Their appointment represents a saving of BD 3,310 per annum should the increase of the previous auditing firm be taken into account.

By the end of the first half of 2020, the Investment Manager concluded successful negotiations with the current Property Manager, Savills, which resulted in a reduction in property and facility management fees by 15% per annum at SP and 30% per annum at Danaat.

Further to the aforementioned, the services of the Administrator and Trustee are currently being retendered to ensure that maximum cost reductions are achieved where possible.

### **Distributions**

With the conclusion of the Trust's mid-year audit, the Investment Manager and the Trustee agreed to defer the mid-year distribution from the Trust and combine it with the year-end distribution. The rationale for the deferral is to preserve the available funds to overcome any unforeseen difficulties faced by the Trust and its properties in the coming period considering the full impact of COVID-19 is not yet clear. At the time of the completion of the mid-year audit, the amount available for distribution after deducting an operational reserve was approximately BD 143,000, which would have resulted in a potential mid-year yield of circa 0.92% (after adding any performance subsidy from the Investment Manager). With the second wave of the disease that has peaked locally and globally, some businesses face the risk of closure due to low levels of business activity, along with potential turnover in tenants in the short-term. Accordingly, the long-term solvency of the Trust and the ability to meet future obligations was prioritized over the distributions of mid-year dividends to protect the Unitholder's investment.

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.

Sincerely,

**Bashar Bazian**  
**Chairman of the Board of Directors of the Trust**

**Ahmad Tayara**  
**On behalf of the Investment Manager**