FIRST MUTUAL

PROPERTIES

Go Beyond

TRADING UPDATE FOR THE QUARTER ENDED 31 MARCH 2021

Overview of Operating Environment

Annual headline inflation decelerated to 240.6% in the first quarter of 2021 from 676.4% in first quarter 2020 largely attributable to the stability of the exchange rate. The operating environment however, remains challenging, with the year opening under lockdown measures in light of the steep surge in COVID-19 cases. Business activity improved towards the end of the first quarter of 2021, as the lockdown measures were relaxed following a reduction of COVID-19 cases, and business operating hours extended.

Property Market Overview

The property market continues to experience low demand for space, with the CBD Office sector worst affected, while the retail and industrial segments of the market remained resilient with steady demand. The office park sector continued to display its resilience with steady demand. Pricing of space continues to migrate towards inflation and currency indexed models to preserve value, while there is an increase in foreign currency denominated leases as property owners seek to benefit from the provisions of SI 85 of 2020. Transactions within the property market continue to be concentrated around the residential sector. Commercial sector transaction activity remains subdued as property owners seek to hold onto assets as value preservation strategies. Development activity remains strong in the residential sector, while commercial development activity remains low due to subdued demand for space.

Financial Performance Highlights

	INFLATION ADJUSTED		HISTORICAL COST	
	Mar-21	Mar-20	Mar-21	Mar-20
	ZWL000	ZWL000	ZWL000	ZWL000
Comprehensive income highlights				
Revenue	90,172	71,657	88,155	17,239
Net property income	62,190	58,181	60,728	14,079
(Loss) / Profit for the period	(82,460)	1,583,570	255,407	463,966
Financial Position highlights				
	Mar-21	Dec-20	Mar-21	Dec-20
Investment properties	9,663,882	10,479,273	9,663,882	9,395,892
Shareholders' equity	9,025,764	9,109,084	8,984,817	8,725,157

Key Performance Indicator Highlights	Mar-21	Mar-20	Movement
Occupancy level	89%	87%	2%
Collections	57%	46%	11%

Revenue for the quarter increased by 411% compared to the same period in the prior year, driven by rent reviews, higher turnover rentals and the occupancy level rising to 89%, mainly attributable to net lettings in the CBD office and retail sectors. Net property income grew at a slower rate of 331% during the period due to reinvestment in repairs and maintenance, to improve space quality and accelerate leasing efforts. A total of ZWL 7.037 million was spent during the quarter on property maintenance, while the business remained focused on accelerating digital strategies and talent retention. Investment properties at 31 March 2021 were valued at ZWL 9.663 billion following a Directors valuation, representing a 3% increase from 31 December 2020.

Impact of COVID-19

Economic activity slowed down in the first quarter of 2021 as the Government of Zimbabwe imposed stringent lock down measures in response to the second wave of the COVID-19 infections. The lockdown early in the year delayed rent review efforts, hindered collections and planned maintenance initiatives. Despite the slow start to the year the occupancy level improved by 2% to 89% (Q1, 2020: 86%) as deliberate efforts to improve space quality continues to yield positive results. Collections deteriorated during the period to 57% (December 2020: 78%) as tenants were affected by the lockdown in generating income to service their obligations. The company continues to prioritise the health and safety of staff and our tenants, implementing digital strategies, remote working as well as enhanced sanitation procedures at all our properties.

Sustainability

The Group finalised a contract to implement a solar energy project at First Mutual Park during the quarter, with the procurement of materials initiated, with delivery expected in the second quarter of 2021. The solar system is expected to be operational in third quarter of 2021. In addition, the Group continues to implement waste separation and management infrastructure at key locations within the property portfolio.

Outlook

The commercial real estate segment is expected to remain an occupiers market due to excessive supply of space. Despite expected growth in economic activity, the property sector is traditionally the slowest to react due to the nature of the asset. The positive outcomes to the property sector linked to GDP growth will be felt post 2021, as demand for space will be driven by any positive effects on the productive sectors of the economy. Rental yields are expected to remain weak due to the slow nature of price discovery of rentals, coupled by limited upside on rentals due to excess supply of space, while recent revaluations of properties will apply pressure to any growth in yields. Rental yields for prime assets are expected to remain competitive due to limited supply of quality prime commercial real estate.

Value preservation and cash flow management remains critical in the immediate to short term as the impact of COVID-19 on rentals, occupancy levels and cash flow generation evolves. To this end, the Group will actively seek new tenants and improve space quality in line with occupier requirements to sustain occupancy levels and earnings.

Directors: E K Moyo (Chairman), A M Chidakwa, D Hoto, S Jogi, C K Manyowa*, W M Marere, E Mkondo, T Ruvingo, S Wekwete (* Executive Director)

First Mutual Properties, First Mutual Park, First Floor, 100 Borrowdale Road, Borrowdale, Harare, Zimbabwe | P O Box MP 373, Mt Pleasant, Harare
Tel: +263 (242) 886 121 - 4 | Email: info@firstmutualproperties.co.zw | Website: www.firstmutual.co.zw | +263 778 917 309