FIRST MUTUAL PROPERTIES

Go Beyond

TRADING UPDATE

FOR THE QUARTER ENDED 31 MARCH 2022

Overview of Operating Environment

The macroeconomic environment remained relatively volatile driven by the continued depreciation of the local currency against the United States Dollar. The local currency depreciated by 31% during the quarter causing a surge in inflation and general uncertainty in the local economy. Annual inflation for the quarter ended 31 March 2022 stood at 72.70% from 60.74% recorded at 31 December 2021. The month-on-month inflation rate was at 6.31% up from the rate of 5.76% as at December 2021 resulting in quarterly inflation of 19.80%. The main drivers for inflation growth has been the depreciating exchange rate which has resulted in prices of goods and services increasing during the quarter. The relaxation of COVID-19 regulations during the quarter improved business performance across the various sectors of the economy with increased trading activity providing the opportunity for inflation linked growth in revenue.

Property Market Overview

Activity on the property market continues to experience demand and supply imbalances affecting property pricing and rentals. The worst affected sectors remain the CBD Offices, high density suburban shopping centres and the specialised industrial sectors where there is limited space absorption. In addition, typically aging product is the most affected, as the cost of revamping and modernising these spaces and infrastructure requires significant investment. Despite the COVID-19 pandemic, there was limited release of space, with most tenant maintaining existing lease arrangements. Demand for traditional retail shops, retail warehousing, light industrial properties and office park space remained strong.

Pricing of rentals continue to evolve, with property owners seeking to hedge against inflation and currency depreciation risk. This has been achieved by shortening rent review periods to adapt to the volatility in pricing.

Commercial property development activity remains constrained as there is limited new demand. As the productive sectors continue to gain traction, it is expected to see growing commercial property development activity in the medium term. Current developments activity is mainly focused at owner occupied industrial / retail warehousing and office park style buildings. Residential development remains strong mainly supported by the informal sector of the economy.

Financial Performance Highlights

	INFLATION ADJUSTED		HISTORICAL COST	
	March 2022	**March 2021**	**March 2022**	**March 2021**
Comprehensive income highlights				
Revenue	212,066,862	155,723,503	200,031,261	88,155,130
Net property income	98,292,662	107,399,748	91,673,338	60,727,523
Profit/loss for the period	(1,945,918,734)	6,968,063,877	1,981,202,956	255,407,314
Financial Position highlights	**March 2022**	**March 2021**	**March 2022**	**March 2021**
Investment properties	24,352,594,299	26,408,567,668	24,352,594,299	22,039,000,000
Shareholders' equity	21,764,217,149	23,710,135,883	21,747,255,466	19,766,052,509
Key Performance Indicator Highlights	**March 2022**	**March 2021**	**Movement**	
Occupancy level	89.99%	88.93%	1.06%	
Collections	68.00%	57.00%	11.00%	

Revenue for the quarter increased by 36% compared to the same period in the prior year, driven by rent reviews, and the occupancy level rising to 89.99%, mainly attributable to net lettings in the CBD office sector. Net property income decreased by 8.5% during the period due to continuing investment through repairs and maintenance to upgrade space and accelerate leasing efforts. A total of ZWL 25.101 million was applied to property maintenance during the quarter. Investment properties at 31 March 2022 were valued at ZWL 24.352 billion, a 10.9% fair value gain from the 31 December 2021 value of ZWL 22.039 billion. The growth was driven by rental income growth and the acquisition of commercial property in Chivhu.

Impact of COVID-19

Economic activity improved in the first quarter of 2021 as the Government of Zimbabwe relaxed lock down measures due to lower death rates driven by increasing vaccinated population. This allowed for accelerated rent reviews while collection rate improved to 68% compared to 57% in the prior period. The occupancy levels improved by 0.46% to 89.99% from 89.53% at 31 December 2021 as deliberate efforts to improve space quality continues to yield positive results. Collections also improved to 68% up 11% on the prior period, as the relaxed lockdown measures allowed for more aggressive collection efforts. The company continues to prioritise the health and safety of staff and our tenants, implementing digital strategies as well as enhanced sanitation procedures at all our properties.

Sustainability

Following the successful completion of the solar energy project at First Mutual Park, the Group is focusing on rolling out similar initiatives at selected properties, while also enhancing waste management and separation infrastructure at various sites.

Dividend

At a meeting held on 9 May 2022, your Board resolved that a first interim dividend of ZWL 40,000,000 being 3.234 ZWL cents per share be declared from the profits for the quarter ended 31 March 2022. The dividend will be payable on or about 9 June 2022 to all shareholders of the Group registered at close of business on 27 May 2022. The shares of the Group will be traded cum-dividend on the Zimbabwe Stock Exchange up to 23 May 2022 and ex-dividend as from 24 May 2022.

Outlook

The commercial real estate segment is expected to remain an occupiers market due to excessive supply of space. The relaxing of COVID-19 protocols will improve business activity across the key productive sectors, however key macroeconomic and monetary policy will be critical to driving further growth and business confidence. Rental yields are expected to remain weak due to the slow nature of price discovery process for rentals, coupled by limited upside on rentals due to excess supply of space.

The key focus area remains value preservation and cash flow management in the immediate to short term as market volatility driven by currency depreciation can significantly disrupt the market. To this end, the Group will actively improve space quality in line with occupier requirements to sustain occupancy levels and earnings, and focus on property developments to further add to the property portfolio.

By order of the Board

Kandwe

Mrs Dulcie Kandwe
Company Secretary

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