SPEAR
REIT LIMITED

Unaudited Consolidated Interim Results
for the six months ended 31 August 2019

Highlights

7% Interim distribution growth

Interim distribution 44.64 cents

FY2020 distribution forecast 6% – 8% on target

Occupancy rate of 98.1%

Asset value R3.92 billion

Loan to Value (“LTV”) 38%

100% Western Cape-based

Nature of the Business

Spear REIT Limited (“Spear” or “the group” or “the company”) listed as a Real Estate Investment Trust (“REIT”) on the main board of the Johannesburg Stock Exchange (“JSE”) and is the only regionally-focused REIT listed on the JSE which predominantly invests in high-quality income-generating assets in the Western Cape.

Spear obtains its diversification through asset type rather that geographical investment.

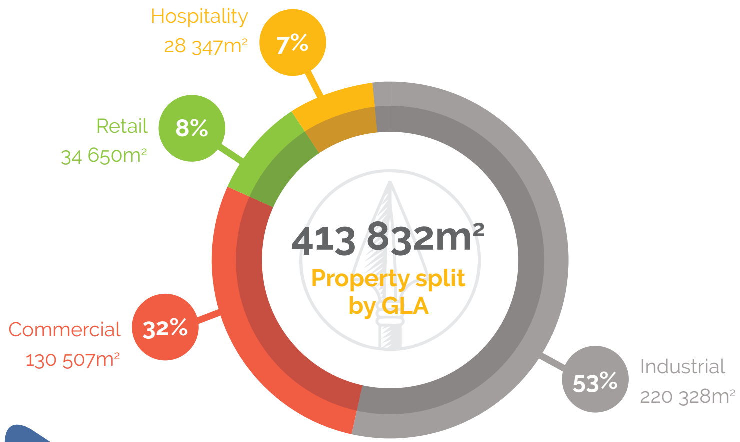
The company conducts its business directly and through a number of subsidiaries, collectively referred to as the “group”.

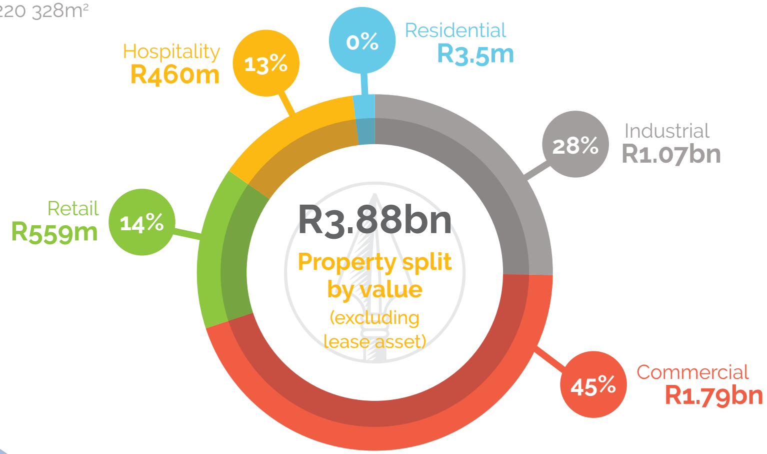
The group’s property and asset management functions are internally and directly managed by the Spear executive management team.

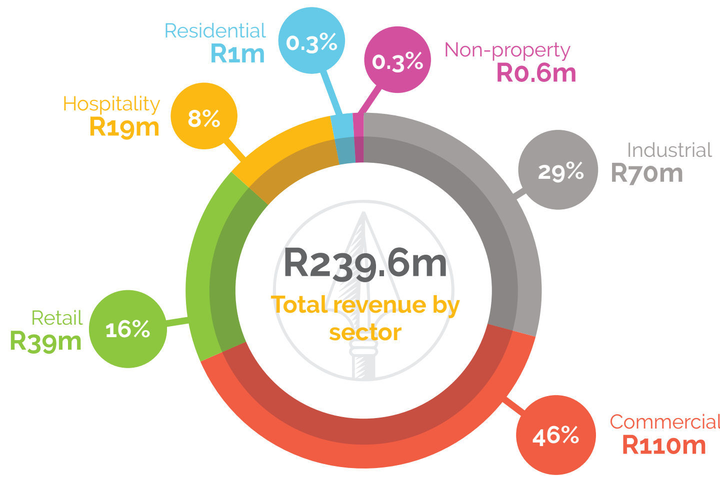
SPEAR REIT LIMITED
Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
(“Spear” or “the group” or “the company”)

Sectoral Split by **GLA, Value and Revenue**

for the period ended 31 August 2019







Condensed Consolidated Statement of Financial Position

	Group		
	Unaudited Six months ended August 2019 R'000	Unaudited Six months ended August 2018 R'000	Audited Year ended February 2019 R'000
ASSETS			
Non-current assets			
Investment property (including straight-line accrual)	3 918 711	3 374 513	3 737 352
Property, plant and equipment	3 151	3 597	3 352
Financial assets	59 938	61 408	60 943
Deferred taxation	6 780	6 780	6 780
	3 988 580	3 446 298	3 808 427
Current assets			
Investment properties held for sale	–	–	74 000
Financial assets	9 693	10 926	9 863
Loans to related parties	3 665	–	109
Trade and other receivables	11 319	8 455	10 527
Cash and cash equivalents	24 481	17 404	13 792
	49 158	36 785	108 291
TOTAL ASSETS	**4 037 738**	**3 483 083**	**3 916 718**
EQUITY AND LIABILITIES			
Shareholders' interest			
Share capital	1 945 886	1 756 761	1 794 067
Share-based payment reserve	14 861	7 256	10 850
Accumulated income	440 468	398 512	490 615
Total attributable to owners	2 401 215	2 162 529	2 295 532
Non-controlling interest	54 155	54 155	54 155
	2 455 370	2 216 684	2 349 687
Liabilities			
Non-current liabilities			
Financial liabilities	1 335 105	1 070 502	1 335 853
	1 335 105	1 070 502	1 335 853
Current liabilities			
Financial liabilities	195 218	144 615	186 463
Loans from related parties	–	3 087	–
Trade and other payables	52 045	47 551	44 715
Deferred revenue	–	644	–
	247 263	195 897	231 178
TOTAL LIABILITIES	**1 582 368**	**1 266 399**	**1 567 031**
TOTAL EQUITY AND LIABILITIES	**4 037 738**	**3 483 083**	**3 916 718**
Number of ordinary shares in issue	205 776 521	185 388 709	188 888 709
Treasury shares	(1 243 205)	(196 955)	(24 550)
Net ordinary shares in issue	204 533 316	185 191 754	188 864 159
Gearing ratio (%)	38.43	36.01	39.58
Tangible net asset value per share (cents)	1 164	1 163	1 212

Condensed Consolidated Statement of Comprehensive Income

	Group		
	Unaudited Six months ended August 2019 R'000	Unaudited Six months ended August 2018 R'000	Audited Year ended February 2019 R'000
Property revenue			
– Contractual rental income	185 465	155 389	319 509
– Tenant recoveries	53 595	47 244	98 801
– Straight-line rental income accrual	11 506	6 257	7 812
	250 566	208 890	426 122
Other income	546	3 729	8 607
Total revenue	251 112	212 619	434 729
Property operating and management expenses	(75 688)	(68 284)	(139 200)
Net property-related income	175 424	144 335	295 529
Administrative expenses	(12 107)	(10 901)	(22 668)
Net property operating profit	163 317	133 434	272 861
Fair value adjustment – investment properties	(60 497)	24 204	111 702
Impairment of investments	(6 647)	–	–
Depreciation and amortisation	(2 543)	(1 090)	(2 943)
Listing cost	–	–	(262)
Share-based payment expense	(4 011)	(2 862)	(6 456)
Profit from operations	89 619	153 686	374 902
Net interest	(58 750)	(50 315)	(100 111)
– Finance costs	(64 148)	(54 964)	(109 202)
– Finance income	5 398	4 649	9 091
Profit before taxation	30 869	103 371	274 791
Taxation	83	(241)	(244)
Profit for the year	30 592	103 130	274 547
Other comprehensive income	–	–	–
Total comprehensive income for the period	**30 592**	**103 130**	**274 547**
Attributable to:			
Equity owners of the parent	28 342	101 010	270 389
Non-controlling interest	2 610	2 120	4 158
Total comprehensive income for the period	**30 592**	**103 130**	**274 547**
Basic earnings per share (cents)	14.51	58.20	149.86
Diluted earnings per share (cents)	14.51	58.20	149.86
Distribution per share (cents)	44.64	41.73	86.42
Interest cover ratio (times)	2.58	2.53	2.65

Condensed Consolidated Statement of Cash Flows

	Group		
	Unaudited Six months ended August 2019 R'000	Unaudited Six months ended August 2018 R'000	Audited Year ended February 2019 R'000
Cash generated from operations			
Profit before tax	30 869	103 371	274 792
Adjustments for:			
Straight-line revenue accrual	(11 506)	(6 257)	(7 812)
Fair value adjustments – investment property	60 497	(24 204)	(111 702)
Impairment of investments	5 896	–	–
Depreciation and amortisation	2 543	1 090	2 943
Finance income	(5 398)	(4 649)	(9 091)
Finance cost	64 148	54 964	109 202
Rental loss credits	–	–	(644)
Share-based payment reserve	4 011	2 862	6 456
Reclassification of trade receivables	–	(4 460)	(3 397)
Changes in working capital			
Trade and other receivables	(792)	4 677	2 605
Trade and other payables	7 330	6 711	3 875
Cash generated from operating activities	157 598	134 105	267 227
Finance income	3 180	2 742	4 825
Finance cost	(65 105)	(54 964)	(108 261)
Distribution paid	(84 389)	(68 016)	(145 292)
Taxation received/(paid)	83	(241)	(244)
Net cash generated from operation activities	11 366	13 626	18 255
Cash flows from investing activities			
Acquisition of investment property	(166 905)	(262 554)	(651 814)
Cost incurred on developments	(62 663)	(30 482)	(99 913)
Proceeds on sale of investment property	70 986	223 522	332 867
Acquisition of subsidiary	–	(62 282)	(60 420)
Acquisition of property, plant and equipment	(109)	(1 937)	(1 984)
Proceeds from insurance receivable	–	178	178
Net cash used in investing activities	(158 692)	(133 555)	(481 086)

Condensed Consolidated Statement of Cash Flows (continued)

	Group		
	Unaudited Six months ended August 2019 R'000	Unaudited Six months ended August 2018 R'000	Audited Year ended February 2019 R'000
Cash flow from financing activities			
Proceeds from share issue	163 293	116 632	150 442
Proceeds from financial liabilities	8 968	57 147	390 211
Repayment of financial liabilities	–	(48 000)	(74 806)
Loan advanced to minority shareholder	–	(72)	(72)
Repayment of related party loan	–	(5 324)	(8 520)
Loan advanced to tenant	–	(5 869)	(5 869)
Proceeds from tenant loan	784	131	915
Loan advanced to related party	(3 556)	–	–
Purchase of treasury shares	(13 648)	(2 902)	(4 859)
Proceeds from sale of treasury shares	2 174	15 370	18 961
Net cash generated from financing activities	158 015	127 113	466 403
Total cash movement for the period	10 689	7 184	3 572
Cash at the beginning of the period	13 792	10 220	10 220
Cash at the end of the period	24 481	17 404	13 792

Condensed Consolidated Statement of Changes in Equity

	Group					
	Share capital R'000	Accu-mulated profit R'000	Equity reserve R'000	Total attributable to parent R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 March 2018	1 547 407	365 517	4 394	1 917 318	54 155	1 971 474
Investment in subsidiary	52 500	–	–	52 500	–	52 500
Profit for the period	–	101 010	–	101 010	2 120	103 130
Distribution to minority shareholder	–	–	–	–	(2 120)	(2 120)
Issue of shares	144 386	–	–	144 386	–	144 386
Disposal of treasury shares	12 468	–	–	12 468	–	12 468
Distributions to shareholders	–	(68 016)	–	(68 016)	–	(68 016)
Share-based payment expense	–	–	2 862	2 862	–	2 862
Balance as at 31 August 2018	1 756 761	398 511	7 256	2 162 528	54 155	2 216 684
Changes in equity:						
Profit for the period	–	169 379	–	169 379	2 038	171 417
Distribution to minority shareholder	–	–	–	–	(2 038)	(2 038)
Issue of shares	35 672	–	–	35 672	–	35 672
Disposal of treasury shares	1 634	–	–	1 634	–	1 634
Distributions to shareholders	–	(77 276)	–	(77 276)	–	(77 276)
Share-based payment expense	–	–	3 594	3 594	–	3 594
Balance as at 28 February 2019	1 794 067	490 614	10 850	2 295 531	54 155	2 349 686
Changes in equity:						
Profit for the period	–	28 342	–	28 342	2 610	30 952
Distribution to minority shareholder	–	–	–	–	(2 610)	(2 610)
Issue of shares	163 297	–	–	163 297	–	163 297
Disposal of subsidiary	–	5 900	–	5 900	–	5 900
Acquisition of treasury shares	(13 648)	–	–	(13 648)	–	(13 648)
Disposal of treasury shares	2 170	–	–	2 170	–	2 170
Distributions to shareholders	–	(84 389)	–	(84 389)	–	(84 389)
Share-based payment expense	–	–	4 011	4 011	–	4 011
Balance as at 31 August 2019	1 945 886	440 468	14 861	2 401 215	54 155	2 455 370

Operating Segment Information

for the six months ended 31 August 2019

	Industrial R'000	Commercial R'000	Retail R'000	Hospitality R'000
Segment revenue	69 609	110 290	38 895	19 353
Profit from operations	44 959	76 201	25 421	(44 245)
Fair value adjustments	–	–	–	(56 733)
Net property operating profit	45 155	77 263	26 192	12 691
Finance income	432	61	498	451
Finance costs	(14 474)	(24 290)	(6 944)	(4 321)
Investment property	1 074 284	1 552 486	558 818	459 769
Investment property under construction	–	235 189	–	–
Total assets	1 119 944	1 595 664	631 048	484 966
Total liabilities	(388 973)	(719 646)	(170 409)	(102 834)

	Residential R'000	Non-property R'000	Straight-lining of leases R'000	Total R'000
Segment revenue	812	647	11 506	251 112
Profit from operations	(5)	(24 218)	11 506	89 619
Fair value adjustments	–	(3 764)	–	(60 497)
Net property operating profit	(5)	(9 485)	11 506	163 317
Finance income	5	3 951	–	5 398
Finance costs	–	(14 119)	–	(64 148)
Investment property	–	–	34 602	3 679 960
Investment property under construction	3 563	–	–	238 752
Total assets	3 563	167 951	34 602	4 037 738
Total liabilities	529	(201 033)	–	(1 582 366)

Selected Explanatory Notes to the Results

1. Earnings per share

This note provides the obligatory information for the group in terms of IAS 33 Earnings Per Share and SAICA Circular 4/2018 and should be read in conjunction with note 2, where earnings are reconciled to distributable earnings. Distributable earnings determine the distribution declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

1.1 Basic earnings per share

		Group		
		Unaudited Six months ended August 2019	Unaudited Six months ended August 2018	Audited Year ended February 2019
Shares in issue		**Number of shares**	Number of shares	Number of shares
Number of shares in issue at the end of the period net of treasury shares		204 533 316	185 191 754	188 864 159
Weighted average number of shares in issue		195 390 164	173 569 356	180 427 720
Diluted weighted average number of shares in issues		195 390 164	173 569 356	180 427 720
Basic earnings per share				
Earnings (profit attributable to owners of the parent)	(R'000)	28 342	101 010	270 389
Basic earnings per share	(cents)	14.51	58.20	149.86
Diluted earnings per share	(cents)	14.51	58.20	149.86

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings:				
Earnings (profit attributable to owners of the parent)	(R'000)	28 342	101 010	270 389
Adjusted for:				
Fair value adjustments to investment properties				
Gross		60 497	(24 204)	(111 702)
Tax		–	–	–
Headline earnings	(R'000)	88 839	76 806	158 687
Headline earnings per share				
Headline earnings per share	(cents)	45.47	44.25	87.95
Diluted headline earnings per share	(cents)	45.47	44.25	87.95

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

	Group		
	Unaudited Six months ended August 2019	Unaudited Six months ended August 2018	Audited Year ended February 2019
Earnings (profit attributable to owners of the parent)	28 342	101 010	270 389
Adjusted for:			
Fair value adjustments to investment properties	60 497	(24 204)	(111 702)
Straight-lining of leases adjustment	(11 506)	(6 257)	(7 812)
Impairment of investment	6 647	–	–
Equity-settled share-based payment reserve	4 011	2 862	6 456
Antecedent dividend*	3 867	3 946	4 443
Distributable profit	91 858	77 357	161 774

In the determination of distributable earnings, the group elects to make an adjustment for the antecedent distribution arising as a result of the capital raise on 21 June 2019.

	Number of shares
Number of shares in issue at period end	205 776 521
Less: Treasury shares	(1 243 205)
Number of shares in issue net of treasury shares	204 533 316

Distribution declared and distribution per share

Distributable earnings		FY2020	**FY2019**
Interim distribution	(cents)	44.64	41.73
Final distribution	(cents)	*	44.69
Total distributions for the period	(cents)	–	86.42

FY2020 distribution forecast remains on target for a 6% – 8% distribution growth from FY2019.

Selected Explanatory Notes to the Results (continued)

Introduction

Spear REIT Limited (JSE share code: SEA) is the only regionally specialised Real Estate Investment Trust listed on the Johannesburg Stock Exchange ("JSE").

As a regional specialist Spear obtains its diversification through asset type investing into high-quality income-generating commercial, retail, industrial, mixed-use and hospitality assets that present a value proposition for the company.

Spear invests only within the borders of the greater Western Cape with a distinct focus on the Cape Town region.

Spear's mission statement is to be the leading Western Cape-focused REIT and to consistently grow its distribution per share ahead of inflation and within the top quartile of its peer group. Management takes pride in being positioned close to all of its assets and in having an acute understanding of the Western Cape real estate environment.

The latter reinforces Spear as a true regional specialist with access to a high-quality investment and development pipeline to further enhance its high-quality portfolio.

During the reporting period both the regional economy of the Western Cape, along with the national economy of South Africa have continued to face headwinds ranging from prolonged periods of low economic growth, reduced consumer and corporate spending and low levels of general economic investment, impacting all sectors of the South African business landscape. Management remains resolute to maintain its focus on business continuity through its early engagement and tenant-centric approach, which by and large will contribute towards sustainable revenues and continue to generate the results that have been generated during the interim period.

Management remains focused on growing Spear's cash flows and distributions to its shareholders on an annual basis through the acquisition of yield-enhancing, high-quality and well positioned real estate assets.

Financial results

The board of directors is pleased to announce a final distribution of 44.63991 cents per share for the six months ended 31 August 2019.

Spear's results are in line with the forecast as disclosed in the results for the year ending 28 February 2019 and a testament to Spear's focus, active asset and property management along with prudent financial management of the business under tough trading conditions.

On a like-for-like basis, interim period to interim period, income growth was 4.40% and net property growth was 2.50%. It is important to note that the following properties were not included in the comparative as they were not owned by Spear during the comparative period, namely Northgate Park, Talana Close and 34 Radnor Road.

At interim period Spear's tangible net asset value ("TNAV") per share increased by 0.07% from the August 2018 interim period to R11.64 and TNAV decreased by 3.97% from February 2019 year-end to R11.64.

The decrease from year-end is a result of a capital raise that was done at R9.80 per share, representing a discount to TNAV from the prior period-end of 19% and fair value adjustments to the hotel assets.

The financial results achieved are attributable to the high-quality nature of Spear's assets, strong contractual income, improved tenant recoveries, together with savings on finance costs.

Despite ongoing headwinds in the local economy and a slower than anticipated recovery of the hospitality sector, distribution targets were achieved.

Positive rental reversion on lease renewals and re-lets has been a key contributor to the financial results for the interim period.

Vacancy rates across the portfolio were at 1.85% at year-end (FY2019: 1.98%).

During the interim period the acquisition of two properties were concluded to the value of R146 million at a blended initial yield of 9.46%. Management disposed of one property at a yield of 10.31%. The latter disposal was concluded primarily to mitigate Spear's risk of financial loss due to a significant increase in the risk profile of the tenant and to divest out of its only Gauteng asset.

Group gearing decreased to 38.43% (FY2019: 39.58%) during the interim period as a result of cash reserves being utilised to reduce group gearing.

There are no immediate debt refinancing concerns within the business. A detailed debt expiry schedule is provided within this report.

Property portfolio

Spear's current property portfolio consists of 31 high-quality assets with an average value of R126 million per property, being a 0.79% decrease from FY2019: R127 million per property. The total gross lettable area ("GLA") at interim period was 413 832m² valued at R3.92 billion.

The portfolio's income stream is underpinned by contractual escalations of 8.08%, a weighted average lease expiry ("WALE") of 29 months (FY2019: 30 months) together with a high percentage of A-grade tenants (listed and large nationals) comprising 64% of portfolio GLA. One of the hallmarks of Spear's portfolio has been the maintenance of a high occupancy rate with vacancies well below the national averages recorded by IPD and SAPOA with an overall vacancy of 1.85% at the end of the interim period (FY2019: 1.98% portfolio vacancies).

Selected Explanatory Notes to the Results (continued)

Top 10 properties by value

	Property	Value including lease asset R'000	Sector	Gross lettable area m²	Vacancy	% of total value	Valuation R/m²
1.	Mega Park, Bellville	446 732	Industrial	86 191	1 452	11.41	5 183
2.	2 Long Street, Cape Town	428 467	Commercial	25 119	1 006	10.94	17 057
3.	Sable Square Shopping Centre, Milnerton	417 926	Mixed-use	31 101	957	10.67	13 438
4.	Northgate Island, Brooklyn	317 983	Commercial	17 002	459	8.12	18 703
5.	Upper Eastside, Woodstock	301 151	Mixed-use	20 495	969	7.69	14 694
6.	15 on Orange, Cape Town	290 653	Hospitality	16 920	723	7.42	17 178
7.	No. 1 Waterhouse Place, Century City	165 442	Commercial	11 235	–	4.23	14 726
8.	MWEB Head Office, Bellville	154 499	Commercial	11 196	–	3.95	13 800
9.	Blackheath Park, Blackheath	134 683	Industrial	37 333	408	3.44	3 608
10.	Radnor Road, Parow	112 744	Industrial	12 879	–	2.88	8 754
		2 770 280		269 471	5 974	70.76	10 280

Sectoral split

	Number of Proper-ties	Value excluding lease asset R'000	Value %	Revenue R'000	Revenue %	Gross lettable area m²	Gross lettable area %	Vacant area m²	Gross lettable area based %
Industrial	9	1 074 284	28	69 609	29	220 328	53	1 860	0.46
Commercial	14	1 552 486	40	110 290	46	119 272	29	3 409	0.85
Retail	4	558 818	14	38 895	17	34 650	8	1 460	0.36
Hospitality	2	459 769	12	19 353	8	28 347	7	723	0.18
Residential	–	–	–	812	–	–	–	–	–
Development	2	238 752	6	–	–	11 235	3	–	–
Total	31	3 884 109	100	238 959	100	413 832	100	7 452	1.85

Sectoral performance

Industrial

The industrial portfolio has continued to trade in line with management's expectation for the interim period and has again shown its robustness in a tough trading environment. The industrial portfolio offers a well-diversified industrial offering ranging from modern logistics, mini, mid-size and large-scale industrial units with highly efficient designs, yards and power supplies. During the interim period Spear reported high occupancy levels within the industrial portfolio with ongoing strong performance in line with management's forecast.

The industrial portfolio (220 328m²) occupancy was at 99.54% at the end of the interim period with management confident that it will continue to perform in line with management's guidance.

Commercial

The commercial portfolio has proven its resilience in very tough trading conditions with a 0.85% office vacancy during the interim period translating to 3 409m² of GLA. Office sector lease renewals albeit in very tough trading conditions continue to be concluded in line with management's forecast.

Excellent progress has been made on the letting of the remainder of the office space at No. 1 Waterhouse Place with in excess of 50% of the available GLA having been let and the balance in advanced negotiations.

The commercial portfolio (119 272m²) occupancy was at 99.15% at the end of the interim period.

Retail

The convenience-focused retail portfolio of Spear has proven to be the best performing sub-sector within the retail real estate environment. The two retail centres offer an ultra-convenience retail experience together with ample free parking. Spear's retail assets are located in high-growth nodes servicing Century City and the broader Northern Suburbs market. During the interim period 46% (16 009m²) of retail GLA (34 650m²) was occupied by national retail tenants. Management is pleased with the strong performance of both of its retail assets amidst persistently tough economic conditions in South Africa.

The retail portfolio (34 650m²) occupancy was at 99.64% at the interim period.

Hospitality

The domestic tourism market has seen a 1% growth in revenue per available room ("RevPAR") over last year's poor performance. The low growth is unfortunately as a result of a weak room rate performance resulting in having to sell more rooms at lower rates in order to entice business. This entails a compound effect on cost having to service more rooms for the same revenue. This combined with inflationary increases in costs negatively impacted controllable profits. The negligible revenue growth for the past 12 months is as a result of a variety of factors such as a contracting economy, major cutbacks in corporate spending and the residue of the Cape water crisis together with visa challenges weighing down on the hospitality sector.

During the interim period the hospitality sector has continued to operate under extremely tough trading conditions with the sectoral recovery being much slower than initially anticipated.

Selected Explanatory Notes to the Results (continued)

Safety and security and an ailing economy weigh heavily on foreign business and leisure tourists visiting our country. What is evident during the interim period is that the 5-star market has shown quicker signs of improvement in occupancies and room rates with a slower recovery for the 4-star market that has a higher dependency rate on the domestic leisure and corporate travel market.

The hospitality portfolio (28 347m²) occupancy was at 99.82% at the end of the interim period.

Tenant grading

	Gross lettable area m²	Gross lettable area %	Number of tenants	Number of tenants %
A – Large nationals, large listed and government tenants	266 820	65	111	27
B – Smaller international and national tenants	80 448	19	233	56
C – Other local tenants and sole proprietors	49 857	12	73	17
Development	9 255	2	–	–
Vacant	7 452	2	–	–
	413 832	100	417	100

Letting activity

Spear began the interim period with an opening vacancy of 7 992m² and with 91 250m² expiring during the year.

Management has successfully renewed/re-let 100 141m² at a positive reversion of 2.72%.

The table below reflects the letting activity of the interim period:

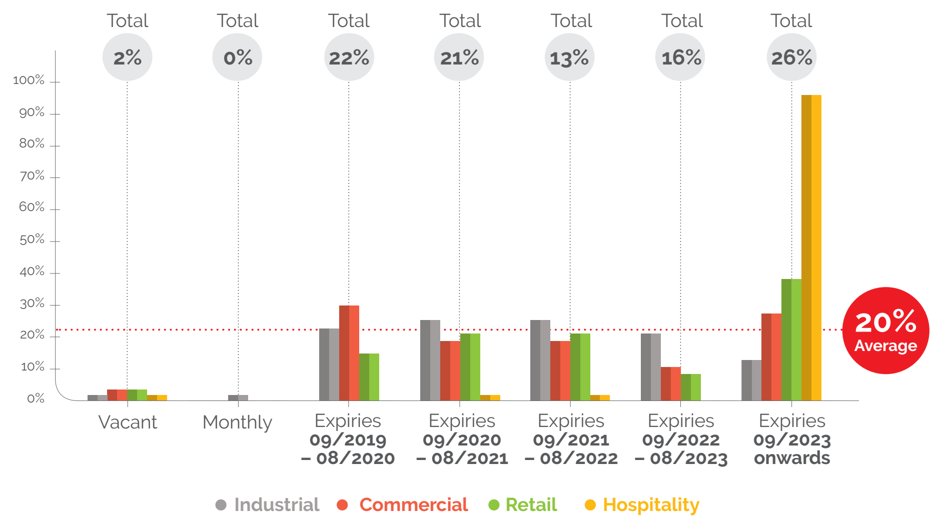
	Expiries and cancellations GLA	Gross rental at expiry	Average gross expiry rental R/m²	Renewals/ New lets GLA	Gross rental at renewals/ new lets	Average gross new rental R/m²	Average rental reversion %
Commercial	21 285	3 158 275	148	27 335	4 271 042	156	5.30
Industrial	67 041	2 645 467	39	68 868	2 741 211	40	0.87
Retail	2 924	321 879	110	3 939	433 141	110	(0.10)
	91 250	6 125 621	99	100 142	7 445 394	102	2.72

Spear's lease expiry profile remains defensive with a WALE of 29 months.

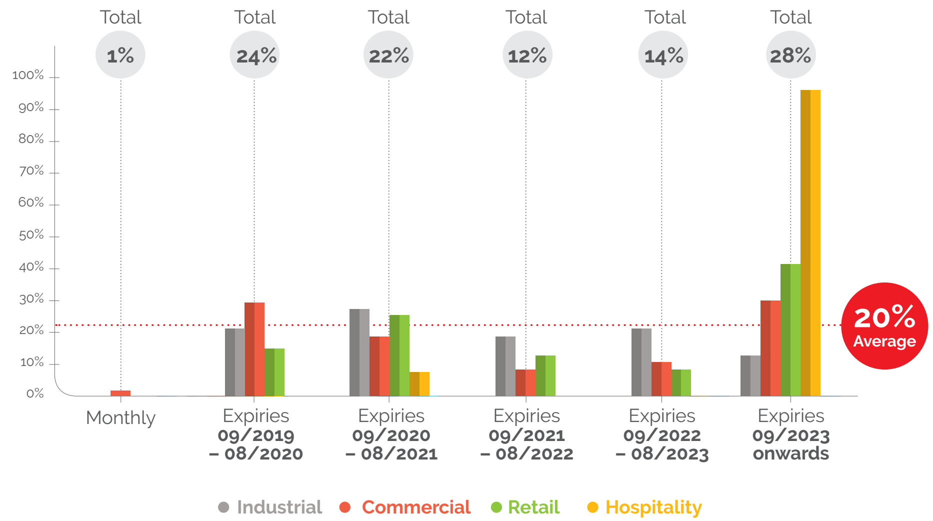
Spear's asset and property management team has a hands-on approach to tenant retention and action tenant engagements well in advance of expiry to ensure business continuity and risk management for the business.

Lease expiry profile

Lease expiry profile based on GLA



Lease expiry profile based on revenue



Selected Explanatory Notes to the Results (continued)

Lease expiry profile (continued)

Weighted average in-force escalations and yields

	Escalation %	Yield %
Industrial	8.64	8.8
Commercial	8.96	8.4
Retail	7.66	8.8
Hospitality	Note 1	5.3
Group average	8.08	8.2

Note 1:

- *DoubleTree by Hilton is operated by a third-party operator and the lease is based on a fixed (60% of budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental) rate, which is agreed annually.*
- *15 on Orange Hotel is operated by a third-party operator and the rental is based on a blended rate of 18% on all revenue generated by the hotel.*

Acquisitions and disposals

The group acquired the following properties during the six months ended 31 August 2019:

	Transfer date	Acquisition value R'000	Debt funding R'000	Cash funding R'000	Vendor placement R'000	Acquisition yield %
26 Marine Drive, Paarden Eiland	05/03/2019	34 000	15 300	18 700	–	9.82
Radnor Road, Parow	04/06/2019	111 700	51 000	60 700	–	9.10
		145 700	66 300	79 400	–	9.46

The group disposed of the following property during the six months ended 31 August 2019:

	Transfer date	Disposal value R'000	Cash payment value R'000	Disposal yield %
Pembury Lodge, Melrose	01/04/2019	74 000	74 000	10.31

Capital expenditure and redevelopment

Spear embarked on a number of capital expenditure projects during the interim period:

- **78 on Edward, Tyger Valley**

  The redevelopment and consolidation of two assets in Edward Street, Tyger Valley have without a doubt been an overwhelming success. Management undertook the redevelopment off the back of a fully let Northern Suburbs office portfolio together with increased tenant demand for office space in the node. The overall development costs on completion will be R89 million. The initial yield on costs will be 9% based upon the final retail unit being let in due course. The balance of the space developed has been let in line with management's redevelopment feasibility approved by Spear's Investment Committee.

  The redevelopment comprises of 1 500m² of prime high street retail space, 2 500m² of AAA-grade office space and a parking ratio of four bays per 100m² let.

- **No. 1 Waterhouse Place, Century City**

  The full refurbishment of this property within the sought-after mixed-use node of Century City is approaching full completion by November 2019. The building comprises of 11 235m² of AAA-grade office space (post refurbishment), four bays per 100m² parking ratio, state-of-the-art mechanical and electrical installations together with a grey water system, solar rooftop solution and highly efficient floorplates. The building comprises of four floors of offices, shared deli/coffee shop, braai and shower facilities and many more amenities that has made No. 1 Waterhouse Place one of the most attractive commercial addresses to be located within the greater Century City. A sum of R90 million has been allocated for the refurbishment of No. 1 Waterhouse Place with an anticipated fully stabilised yield of 9.4% upon completion.

Capital allocation and strategic focus

Management remains focused on both long-term shareholder and stakeholder returns by maintaining its strategy of investing into yield-enhancing, high-quality assets within the Western Cape that produce sustainable cash flows.

The South African economy and real estate sector remain under pressure as consumer spending reduces, corporate South Africa tighten its belts and low levels of investment into the manufacturing and production sectors due to a lack of sufficient electrical supply impact on certain subsectors of the industrial market. Under the current trading conditions management remains very selective on when and where to deploy capital into new assets. Given Spear's regional focus and network, management is confident that access to high-quality investment assets will continue well into the future.

Balance sheet and risk management

Balance sheet and risk management factors that impact the day-to-day operations of Spear remain a key focus for management in the execution of its multipronged business continuity strategy.

Management maintains its excellent relationship with Nedbank CIB and Standard Bank Real Estate Finance as its funding partners ensuring that Spear's balance sheet reflects a well-managed and active business positioned to take advantage of growth opportunities and deal flow when they are presented. Management is comfortable to maintain gearing levels within a range of 38% – 45% loan to value ("LTV") on group debt together with a hedging policy that will see 60% – 65% of Spear's debt portfolio hedged out for up to 36 months to provide income certainty to its shareholders.

Spear's debt portfolio remains actively managed with an all-in cost of debt for the interim period of 8.85% and a hedged ratio of 65% at the end of the interim period.

The group's gearing levels at the end of the interim period was 38.43% translating to a 2.9% decrease from the end of FY2019.

Spear's most recent debt expiry profile has no short to medium term refinancing risk with the bulk of Spear's debt coming due for re-negotiation in FY2021-22.

Cost to income

Net total cost to income for the period was 21.68%, increasing from 21.59% as at 28 February 2019.

The increase is directly related to the significant increase in utility charges and property expenses.

Administrative cost to income for the period was 5.48%, decreasing from 5.92% as at 28 February 2019.

The decrease is directly related to the new property acquisition that can be managed by the current staff employed without having to increase head office overhead costs given the scalability of the current management system.

Distributable earnings

The board approved and declared distribution number 6 of 44.64 cents per share on 17 October 2019 for the six months ended 31 August 2019.

This represents distribution growth of 6.98% compared to the six-month period ended 31 August 2018.

Based on available information management is of the opinion that Spear is on track to deliver on its guidance of 6% – 8% growth in distribution per share for the full year ending 29 February 2020 as advised to the market in May 2019.

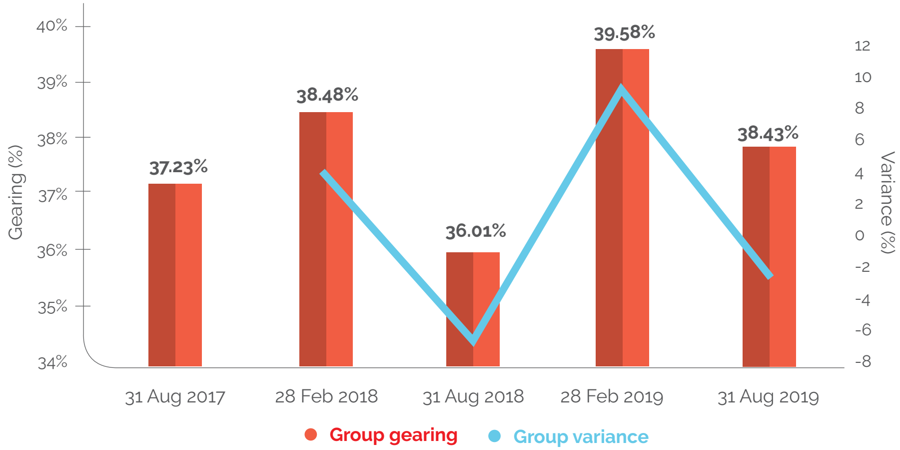
The forecast distribution for the year ending 28 February 2020 remains on target.

Borrowings and funding

The group obtained funding for property acquisition through one capital raise and increasing bank borrowings as disclosed under acquisitions.

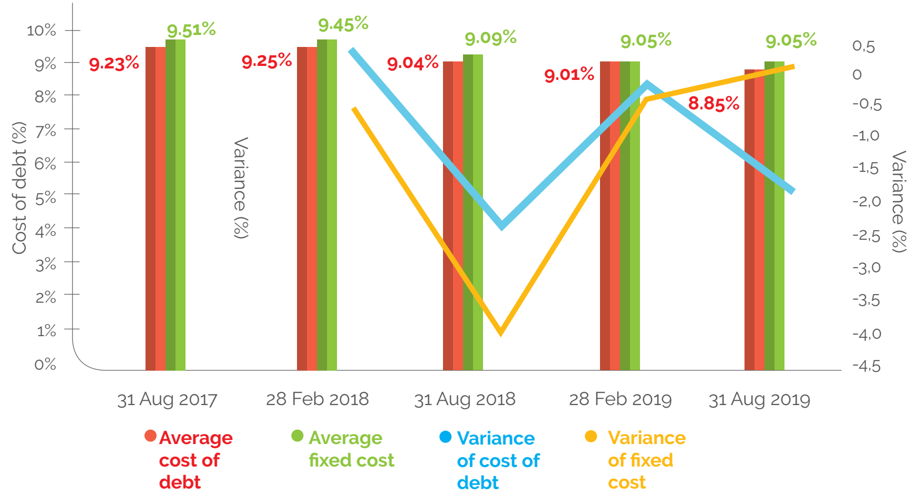
Capital raise date	Number of shares	Price Rands	Value R'm
21 June 2019	16.8 million	9.80	164.6

Group gearing



Group gearing (continued)

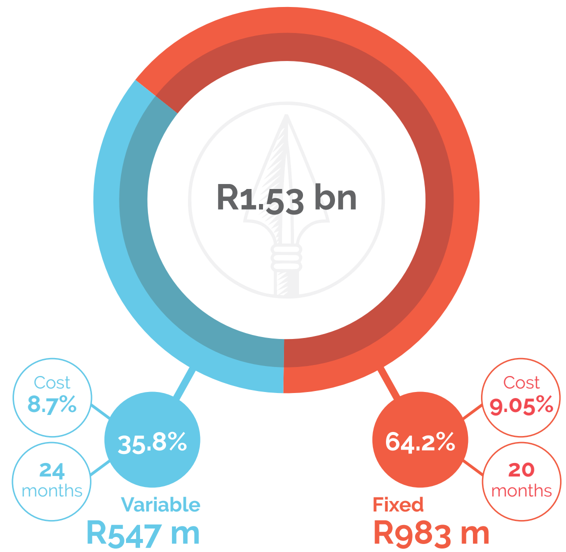
In-force cost of debt for period



As at period end the prime-linked loans bear interest at an average rate of prime less 1.32% and the average fix rate is 9.05% for the next 12 months.

The rate does not include any potential interest rate changes from the South African Reserve Bank.

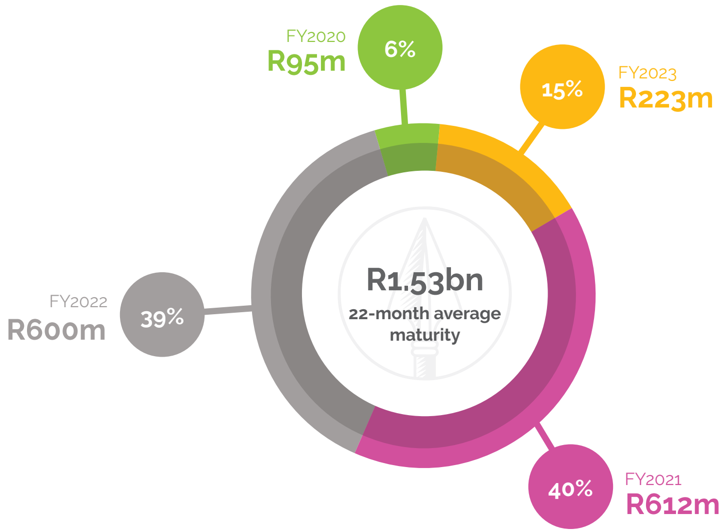
Group debt profile



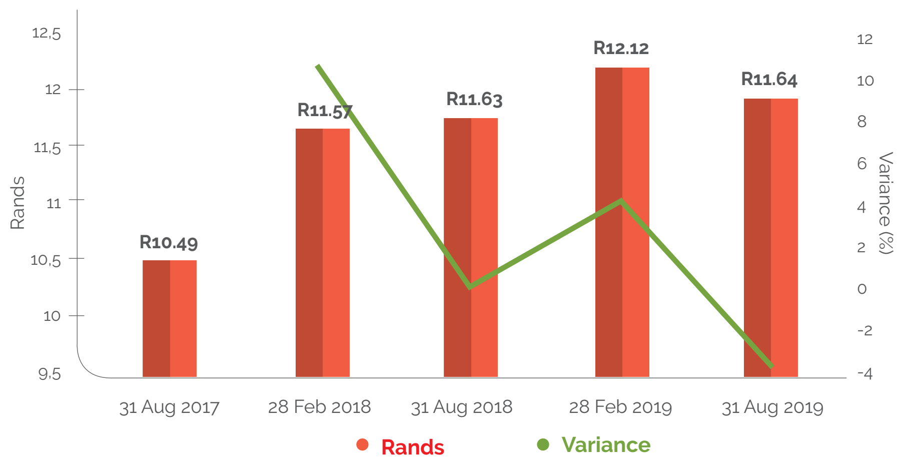
Selected Explanatory Notes to the Results (continued)

Group gearing (continued)

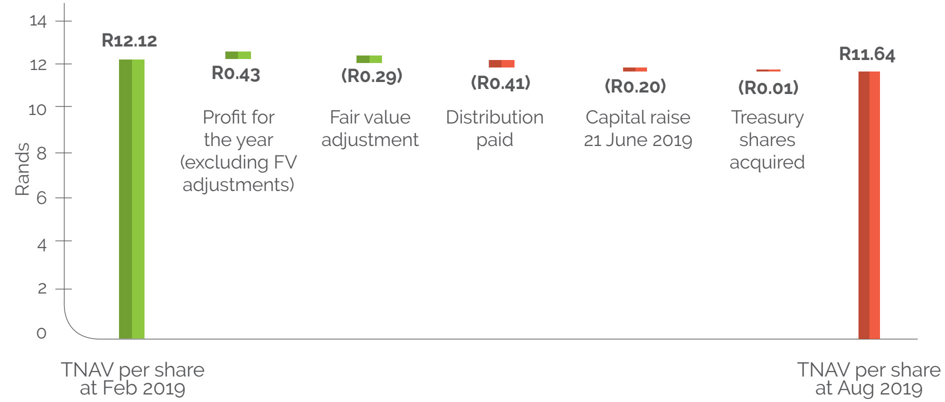
Group debt expiry



Tangible net asset value



TNAV bridge



Receivables

Amid increasingly tougher trading conditions, receivables represented 4.01% of total revenue excluding smoothing.

Of the receivable balance outstanding as at 31 August 2019, 1.03% is guaranteed by a seller of a property as per the sales agreement and will be fully settled in November 2019.

Management has commended its debtors management team for the prudent collections and low receivables. Management is cognisant of the fact that as South Africa continues to be negatively impacted by the weak macro-economic environment the probability of a higher percentage receivables cannot be discounted. However, a concerted effort is made to guard against receivables creep.

Provisions for bad debt cover all debtors greater than 90 days with adequate provisions made for doubtful receivables.

Sustainability

PV solar rollout

A key part of Spear's business strategy is to operate as a responsible South African corporate operation and to tap into technologies that place less of a reliance on fossil fuel-generated supply, which have a negative impact on the environment. Management through its PV solar strategy wishes to hedge itself against the increasing supply costs levied by Eskom on an annual basis when approved by NERSA together with management's intention to reduce Spear's carbon footprint where and when possible.

Sustainability (continued)

Spear has committed a further R50 million (Phase 1: R9 million Sable Square) of investment into the PV solar rollout as a Phase 2 project to its current PV solar installations.

As part of the Phase 2 rollout 12 assets will be installed with PV solar solutions setting the stage for close on 50% of the entire Spear portfolio being fitted with a PV solar solution before the end of the 2020 financial year. The Phase 2 rollout once completed will have a cumulative size of 4 238 kWp, which will range from 60 – 1 200 kWp systems. The consolidated payback period for Phase 2 will be 4.5 years. As part of Spear's due diligence process on new assets being purchased into the fund a key box to tick is its ability to accommodate a solar solution to positively impact the overall investment into the asset for Spear.

Water continuity

Spear's water continuity programme continues to be implemented across key parts of the portfolio. Capital expenditure on water continuity projects amounted to R5 million ranging from additional boreholes, a water tanker truck, water filtration systems and water storage tanks. The DoubleTree by Hilton Hotel in Woodstock post the implementation of the water continuity plan is generating 120 000lts of potable water daily to service both the hotel and the balance of the mixed-use scheme. Water usage across the portfolio has been reduced with the implementation of tap aerators, waterless urinals and hand sanitizers where applicable. Pre-diluted cleaning materials have been deployed across the portfolio and where possible grey water is used for exterior cleaning and irrigation.

Outlook

The portfolio remains stable and well positioned to deliver on management's guidance for the 2020 financial year. Spear remains a pure property investment group with a well-diversified, defensive and stable core property portfolio. The South African economy and political landscape remain in uncertain territory placing strain on its investment attractiveness. Spear remains committed to South Africa and to do its part in job creation and skills development in the Western Cape to reduce the burden that unemployment places on South Africa and its people.

- Management will focus on improving the core portfolio through the acquisition of yield-enhancing assets within the Western Cape
- Management will continue to focus on prudent capital management and deploy its capital resources with both an entrepreneurial and value investor mindset
- Management remains heavily invested in Spear
- Management is confident that Spear is trading on a stable management platform which will ensure that the company's growth objectives are achieved both in the form of assets and human capital.

Prospects and guidance

South Africa continues to operate under tough trading conditions as both the economic and political environment remain in less than optimal territory to attract new investment and development within the local economy. In the absence of significant macro-economic improvements, the road ahead remains tough on both corporate South Africa and the general population of South Africa. The potential for upward trending vacancies in a low-growth economy may be a tough reality that lies ahead for most real estate counters.

The guidance provided in May 2019 is unchanged to the extent that the trading conditions within the hospitality sector continue to improve and no major tenant failures occur within the core portfolio.

Management remains confident that demand for its high-quality rental properties across the various sectors within the Western Cape will continue given its tenant-centric approach and hands-on asset management skills.

The guidance has been based on the assumption that over the course of the next six months:

- That a relatively stable macro-economic environment will prevail
- That lease renewals are concluded as per the company forecast
- That no major tenant failures will take place
- That tenants will successfully absorb rising costs associated with utility consumption charges and municipal rates
- That load shedding does not return and impact the overall operations of the South African economy
- That no further material underperformance of the hospitality portfolio occurs outside of what has been forecast and that which is within management's control.
- That the balance of the core portfolio is able to absorb any further underperformance in the hospitality portfolio for the balance of FY2020.

Any changes in the above assumptions may affect management's forecast for the year ending 29 February 2020.

The information and opinions contained above are recorded and expressed in good faith and are based upon reliable information provided to management.

No representation, warranty, undertaking or guarantee of whatsoever nature is made or given with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

The forecast for the period ending 29 February 2020 is the sole responsibility of the directors and has not been reviewed or audited by Spear's independent external auditors.

Subsequent events

The directors are not aware of any events which have occurred since the end of the financial period, which have a material impact on the results and disclosures in these unaudited consolidated interim financial results.

Basis of preparation

The unaudited consolidated interim results for the six months ended 31 August 2019 are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. Except for the adoption of revised and new standards that became effective during the year, all accounting policies applied in the preparation of these unaudited consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. There was no material impact post management's assessments on the annual financial statements as a result of the adoption of IFRS 16 and IFRS 9 amendments.

Christiaan Barnard CA (SA), in his capacity as Chief Financial Officer, was responsible for the preparation of the unaudited consolidated interim results for the six months ended 31 August 2019. These consolidated interim results have not been reviewed or reported on by the company's auditors.

Interim distribution for the six months ended 31 August 2019

Notice is hereby given of the declaration of interim distribution number 6 of 44.63992 cents per share for the six months ended 31 August 2019 from income reserves.

As Spear is a REIT, the distribution meets the definition of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (Income Tax Act). Qualifying distributions received by South African tax residents will form part of their gross income in terms of section 10(1)(k)(i)(aa) of the Income Tax Act. Consequently, these distributions are treated as income in the hands of the shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

South African tax residents

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exception, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act), because it is a dividend distributed by a REIT. The dividend is exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to the Central Securities Depository Participant ("CSDP") or broker in respect of uncertificated shares, or to the company, in respect of certificated shares:

a) a declaration that the dividend is exempt from dividend withholding tax; and

b) a written undertaking to inform the CSDP, broker or the company, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-residents shareholders

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013, dividends received by non-residents from a REIT were not subject to dividend withholding tax. Since 1 January 2014, any dividend received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder concerned. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 35.71194 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following to their CSDP or broker in respect of uncertificated shares, or the company, in respect of certificated shares:

a) a declaration that the dividend is subject to a reduced rate as a result of the application of DTA; and

b) a written undertaking to inform their CSDP, broker or the company, should the circumstances affecting the reduced rate change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Non-resident shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

The number of ordinary shares in issue on declaration date is 205 776 521.

The company's tax reference number is 9068437236.

Holders of uncertificated shares have to ensure that they have verified their residence status with their CSDP or broker. Holders of certificated shares will be asked to complete a declaration to the company. The distribution is payable to shareholders in accordance with the timetable set out below:

	2019
Declaration date	Thursday, 17 October
Last day to trade cum-dividend distribution	Tuesday, 5 November
Shares trade ex-dividend distribution	Wednesday, 6 November
Record date	Friday, 8 November
Payment date	Monday, 11 November

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 November 2019 and Friday, 8 November 2019, both days inclusive.

In respect of dematerialised shareholders, the distributions will be transferred to the CSDP account/ broker accounts on Monday, 11 November 2019. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 11 November 2019.

On behalf of the board
Spear REIT Limited

Abubaker Varachhia
Non-executive Chairman

Quintin Rossi
Chief Executive Officer

Christiaan Barnard
Chief Financial Officer

Cape Town
17 October 2019

Directorate and Administration

SPEAR REIT LIMITED

Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the group" or "the company")

Directors of Spear

Abubaker Varachhia*
(Non-executive Chairman)

Michael Naftali Flax*
(Deputy Non-Executive Chairman)

Quintin Michael Rossi
(Chief Executive Officer)

Christiaan Barnard
(Chief Financial Officer)

Brian Leon Goldberg*#

Jalaloodien Ebrahim Allie*#
(Lead Independent Director)

Niclas Kjellström-Matseke*#

Cormack Sean McCarthy*

Dr. Rozett Phillips*#

* Non-executive
\# Independent

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Company Secretary

René Cheryl Stober

Transfer Secretaries

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Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Independent Reporting Accountants and Auditors

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Foreshore, Cape Town, 8001
(PO Box 2275, Cape Town, 8000)

Sponsor

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(PO Box 7403, Stellenbosch, 7599)

Legal Adviser

Cliffe Dekker Hofmeyr
11 Buitengracht Street, Cape Town, 8001
(PO Box 695, Cape Town, 8000)

Bankers

Nedbank Limited
Standard Bank Limited
Investec Limited

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