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")

Provisional Summarised Audited Consolidated Financial Statements for the year ended 28 February 2019

Highlights

- FY2019 distribution of 86.42 cents per share
- FY2019 distribution growth of 10%
- Occupancy rate of 98%
- Asset value R3.8 billion
- Asset value increased 22% from FY2018
- Loan to value ("LTV") 39%
- Fixed debt ratio of 65%

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 than 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.

Consolidated Statement of Financial Position

		Group	
		Audited Year ended 28 February 2019 R'000	Audited Year ended 28 February 2018 R'000
ASSETS			
Non-current assets			
Investment property (including straight-line accrual)		3 737 352	2 912 417
Property, plant and equipment		3 352	1 785
Financial assets		60 943	55 810
Deferred taxation		6 780	5 838
		3 808 427	2 975 850
Current assets			
Investment properties held for sale		74 000	221 492
Financial assets		9 863	6 466
Loans to related parties		109	-
Trade and other receivables		10 527	13 132
Cash and cash equivalents		13 792	10 220
Insurance claim receivable		-	178
		108 291	251 488
TOTAL ASSETS		3 916 718	3 227 338
EQUITY AND LIABILITIES			
Shareholders' interest			
Share capital		1 794 067	1 547 407
Share-based payment reserve		10 850	4 394
Accumulated income		490 615	365 517
Total attributable to owners		2 295 532	1 917 318
Non-controlling interest		54 155	54 155
		2 349 687	1 971 473
Liabilities			
Non-current liabilities			
Financial liabilities		1 335 853	1 053 434
		1 335 853	1 053 434
Current liabilities			
Financial liabilities		186 463	152 536
Loans from related parties		-	8 411
Trade and other payables		44 715	40 840
Deferred revenue		-	644
		231 178	202 431
TOTAL LIABILITIES		1 567 031	1 255 865
TOTAL EQUITY AND LIABILITIES		3 916 718	3 227 338
Number of ordinary shares in issue		188 888 709	165 190 689
Treasury shares		(24 550)	(1 424 139)
Net ordinary shares in issue		188 864 159	163 766 550
Gearing ratio	(%)	39.58	38.48
Tangible net asset value per share	(cents)	1 212	1 157

Condensed Consolidated Statement of
Comprehensive Income

		Group Audited Year ended 28 February 2019 R'000	Audited Year ended 28 February 2018 R'000
Property revenue			
- Contractual rental income		319 509	232 896
- Tenant recoveries		98 801	54 179
- Straight-line rental income accrual		7 812	16 980
		426 122	304 055
Other income		8 607	12 540
Total revenue		434 729	316 595
Property operating and management expenses		(139 200)	(87 422)
Net property-related income		295 529	229 173
Administrative expenses		(22 668)	(17 530)
Net property operating profit		272 861	211 643
Fair value adjustment - Investment properties		111 702	252 535
Depreciation		(2 943)	(441)
Annual listing fee		(262)	(314)
Share-based payment expense		(6 456)	(455)
Profit from operations		374 903	462 968
Net interest		(100 111)	(76 044)
- Finance costs		(109 202)	(82 297)
- Finance income		9 091	6 253
Profit before taxation		274 792	386 924
Taxation		(244)	(695)
Profit for the year		274 547	386 229
Other comprehensive income		-	-
Total comprehensive income for the year		274 547	386 229
Attributable to:			
Equity owners of the parent		270 389	383 186
Non-controlling interest		4 158	3 043
Total comprehensive income for the year		274 547	386 229
Basic earnings per share	(cents)	149.86	271.60
Diluted earnings per share	(cents)	149.86	271.60
Distribution per share	(cents)	86.42	78.50
Interest cover ratio	(times)	2.65	2.56

Consolidated Statement of
Cash Flows

	Group Audited Year ended 28 February 2019 R'000	Audited Year ended 28 February 2018 R'000
Cash generated from operations		
Profit before tax	274 792	386 924
Adjustments for:		
Straight-line revenue accrual	(7 812)	(16 980)
Fair value adjustments - Investment property	(111 702)	(252 535)
Depreciation	2 943	441
Finance income	(9 091)	(6 253)
Finance cost	109 202	82 297
Rental loss credits	(644)	(2 059)
Share-based payment reserve	6 456	454
Reclassification of trade receivables	(3 397)	(4 752)
Changes in working capital		
Trade and other receivables	2 605	(5 040)
Trade and other payables	3 875	19 288
Cash generated from operating activities	267 227	201 785
Finance income	4 825	1 602
Finance cost	(108 261)	(82 297)
Distribution paid	(145 292)	(83 000)
Taxation (paid)/received	(244)	11
Net cash generated from operating activities	18 255	38 101
Cash flows from investing activities		
Acquisition of investment property	(542 470)	(1 278 255)
Cost incurred on developments	(99 913)	-
Proceeds on sale of investment property	223 522	15 968
Acquisition of subsidiary	(60 420)	-
Acquisition of property, plant and equipment	(1 984)	(1 734)
Proceeds from insurance receivable	178	18 508
Net cash used in investing activities	(481 086)	(1 245 513)
Cash flow from financing activities		
Proceeds from share issue	150 442	482 168
Proceeds from financial liabilities	390 211	761 214
Repayment of financial liabilities	(74 806)	(33 696)
Loan advanced to minority shareholder	(72)	(48)
Advance from related party	-	4 530
Repayment of related party loan	(8 520)	-
Loan advanced to tenant	(5 869)	-
Repayment of finance lease	-	(112)
Proceeds from tenant loan	915	-
Purchase of treasury shares	(4 859)	(16 669)
Proceeds from sale of treasury shares	18 961	7 613
Net cash generated from financing activities	466 403	1 205 000
Total cash movement for the period	3 572	(2 412)
Cash at the beginning of the period	10 220	12 632
Cash at the end of the period	13 792	10 220

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						

28 February 2017	917 538	65 331	3 939	986 808	-	986 808
Changes in equity:						
Sale of investment in subsidiary	-	-	-	-	54 155	54 155
Profit for the period	-	383 186	-	383 186	3 043	386 229
Distribution to minority shareholder	-	-	-	-	(3 043)	(3 043)
Issue of shares	638 926	-	-	638 926	-	638 926
Acquisition of treasury shares	(9 057)	-	-	(9 057)	-	(9 057)
Distributions to shareholders	-	(83 000)	-	(83 000)	-	(83 000)
Share-based payment expense	-	-	455	455	-	455
Balance as at 28 February 2018	1 547 407	365 517	4 394	1 917 318	54 155	1 971 474
Changes in equity:						
Investment in subsidiary	52 500	-	-	52 500	-	52 500
Profit for the period	-	270 389	-	270 389	4 158	274 547
Distribution to minority shareholder	-	-	-	-	(4 158)	(4 158)
Issue of shares	180 058	-	-	180 058	-	180 058
Disposal of treasury shares	14 102	-	-	14 102	-	14 102
Distributions to shareholders	-	(145 292)	-	(145 292)	-	(145 292)
Share-based payment expense	-	-	6 456	6 456	-	6 456
Balance as at 28 February 2019	1 794 067	490 614	10 850	2 295 531	54 155	2 349 686

Operating Segment Information
Year ended 28 February 2019

	Industrial R'000	Commercial R'000	Retail R'000	Hospitality R'000
Segment revenue	124 589	167 704	77 646	44 089
Profit from operations	128 495	179 825	92 177	(11 627)
Fair value adjustments	49 391	68 125	43 028	(42 666)
Net property operating profit	79 411	112 651	50 252	31 203
Finance income	411	212	258	754
Finance costs	(24 492)	(27 650)	(14 594)	(8 908)
Investment property	955 832	1 481 039	559 065	504 897
Investment property held for sale	-	-	-	-
Investment property under construction	-	213 381	-	-
Total assets	1 023 315	1 669 899	626 056	532 042
Total liabilities	(333 309)	(657 511)	(168 335)	(101 909)

	Residential R'000	Non-property R'000	Straight-lining of leases R'000	Total R'000
Segment revenue	8 658	4 233	7 812	434 730
Profit from operations	484	(22 262)	7 812	374 903
Fair value adjustments	(6 177)	-	-	111 702
Net property operating profit	6 661	(15 128)	7 812	272 862
Finance income	44	7 412	-	9 091
Finance costs	(2)	(33 556)	-	(109 202)
Investment property	-	42	23 097	3 523 972
Investment property held for sale	75 657	-	(1 657)	74 000
Investment property under construction	-	-	-	213 381
Total assets	77 833	(33 866)	21 439	3 916 718
Total liabilities	(272)	(305 695)	-	(1 567 031)

Selected Explanatory Notes to the Results

1. Earnings per share

This note provides the obligatory information in terms of IAS 33 Earnings Per Share and SAICA Circular 4/2018 for the group 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	
Shares in issue		Audited Year ended 28 February 2019 Number of shares	Audited Year ended 28 February 2018 Number of shares
Number of shares in issue at the end of the year net of treasury		188 864 159	163 766 550
Weighted average number of shares in issue		180 427 720	141 084 847
Diluted weighted average number of shares in issues		180 427 720	141 084 847
Basic earnings per share			
Earnings (profit attributable to owners of the parent)	(R'000)	270 389	383 186
Basic earnings per share	(cents)	149.86	271.60
Diluted earnings per share	(cents)	149.86	271.60

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings:			
Earnings (profit attributable to owners of the parent)	(R'000)	270 389	383 186

Adjusted for:			
Fair value adjustments to investment properties:			
Gross	(R'000)	(111 702)	(252 535)
Tax	(R'000)	-	-
Headline earnings		158 687	130 651
Headline earnings per share			
Headline earnings per share	(cents)	87.95	92.60
Diluted headline earnings per share	(cents)	87.95	92.60

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

	Group	
	Audited Year ended 28 February 2019	Audited Year ended 28 February 2018
Earnings (profit attributable to owners of the parent)	270 389	383 186
Adjusted for:		
Fair value adjustments to investment properties	(111 702)	(252 535)
Straight-lining of leases adjustment	(7 812)	(16 980)
Equity-settled share-based payment reserve	6 456	455
Deferred tax realisation	-	695
Less: Profit not distributed	-	(2 483)
Antecedent dividend*	4 443	16 348
Distributable profit	161 774	128 686

*In the determination of distributable earnings, the group elects to make an adjustment for the antecedent distribution arising as a result of the capital raises on 11 June 2018 and 16 November 2018 respectively, as well as the acquisition issue of shares for the acquisition of Webram Four Proprietary Limited during the period for which the company did not have full access to the cash flow from such issues.

	Number of shares
Number of shares in issue at period end	188 888 709
Less: Treasury shares	(24 550)
Number of shares in issue net of treasury shares	188 864 159

Distribution declared and distribution per share			
Distributable earnings (cents per share)		FY2019	FY2018
Interim distribution		41.73	36.95
Final distribution		44.69	41.55
Total distributions for the period		86.42	78.50
Year-on-year growth	(%)	10.09	

Introduction

Spear REIT Limited (JSE share code: SEA) is the only regionally specialised Real Estate Investment Trust listed on the Johannesburg Stock Exchange ("JSE"). Its main business is investing in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in 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's proximity to assets remains excellent and its acute understanding of the Western Cape real estate market truly makes Spear a regional specialist with access to excellent investment pipelines and development opportunities to further enhance an already high-quality real estate portfolio.

During the year both the regional economy of the Western Cape along with the national economy of South Africa has faced various headwinds ranging from severe droughts, which negatively impacted the tourism and hospitality sector in the Western Cape, to national economic challenges leading to low overall growth and a declining business confidence environment. Management has remained resolved to stay focused on business continuity through its early engagement and tenant-centric approach resulting in sustainable revenue and the achievement of its results despite an underperforming hospitality sector.

Growing cash flows and distribution growth will remain a primary Spear objective, which management believes clearly displays management and shareholder alignment.

Financial results

The board of directors is pleased to announce a final distribution of 44.69 cents per share for the six months ended 28 February 2019.

Total distribution for the year ended 28 February 2019 is 86.42 cents per share, being a 10.09% growth from the prior year.

Spear's results are in line with the forecast as disclosed during the results presentation on 17 May 2018 and a testament to Spear's focus, active asset and property management along with prudent financial management of the going concern.

Spear's tangible net asset value per share increased by 4.71% from FY2018 to R12.12 in FY2019. The increases are a result of acquisitions and a small fair value adjustment performed during the financial year.

The like-for-like income growth delivered by the underlying portfolio for the reporting period was 26%. The significant increase is due to R1 billion worth of assets being owned for 12 months during the 2019 financial year versus an average of 7 months in the 2018 financial year. This is a clear testament to the significant asset growth since listing in 2016.

The financial results achieved are attributable to the high-quality nature of Spear's assets, strong contractual income and recoveries together with cost containment and savings on finance costs. Despite increasingly tougher trading conditions particularly within the hospitality sector, which has underperformed the rest of the Spear portfolio, distributable income targets were achieved. Positive rental reversion on lease renewals and re-lets has been a key contributor to the financial results for the period.

Group gearing increased to 39.58% (FY2018: 38.48%) during the year as a result of cash reserves being utilised for refurbishment work and increased gearing on the Northgate Park transaction. There is 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 30 high-quality assets with an average value per asset of R127 million, being a 35.23% increase during the year (FY2018: R94 million) and a total gross lettable area ("GLA") of 402 652m2 valued at R3.81 billion.

The portfolio's income stream is underpinned by average contractual escalations of 8.07%, a weighted average lease expiry ("WALE") of 30 months (FY2018: 33 months) together with a high percentage of A-grade tenants (listed and large nationals) comprising 62% of the portfolio's GLA. Vacancies across the portfolio are significantly below the national average and reported IPD statistics with an overall vacancy of 1.98% at the end of the period (FY2018: 1.95% portfolio vacancies).

Top 10 properties by value

	Property	Value including lease asset R'000	Sector	Gross lettable area m2	% of total value	Valuation R/m2
1.	Mega Park, Bellville	441 022	Industrial	86 095	11.58	5 123
2.	2 Long Street, Cape Town	426 034	Commercial	25 115	11.18	16 963
3.	Sable Square Shopping Centre	416 400	Retail	31 100	10.93	13 389
4.	UES DoubleTree by Hilton, Woodstock	322 139	Hospitality	18 761	8.46	17 171
5.	Northgate Park, Brooklyn	314 302	Commercial	17 002	8.25	18 486
6.	15 on Orange, Cape Town	310 191	Hospitality	16 726	8.14	18 545
7.	MWEB Head Office, Bellville	154 000	Commercial	11 195	4.04	13 756
8.	Blackheath Park, Blackheath	134 000	Industrial	37 334	3.52	3 589
9.	1 Waterhouse Place, Century City	125 434	Commercial	11 030	3.29	11 372
10.	No 2 Estuaries, Century City	102 833	Commercial	4 199	2.70	24 490
		2 746 356		258 557	72.09	10 622

Sectoral split and vacancy profile

	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	Vacancy %
Industrial	8	955 832	25	124 589	30	207 354	51	2 432	1.17
Commercial	13	1 481 039	39	167 704	40	109 667	27	2 689	2.45
Retail	4	559 065	15	77 646	18	34 648	9	1 462	4.22
Hospitality	2	504 897	13	44 089	10	28 153	7	1 410	5.01
Residential	1	75 657	2	8 658	2	8 000	2	-	-
Under development	2	213 381	6	-	-	14 830	4	-	-
	30	3 789 871	100	422 685	100	402 652	100	7 992	1.98

Sectoral performance

Industrial

Performance remains healthy and strong with continuous demand for our rental opportunities by prospective tenants across the industrial portfolio. The industrial portfolio offers a diversified industrial offering situated in well-established industrial nodes consisting of mini, mid-size and large industrial units. The industrial portfolio has continued to operate with high occupancy rates and in line with management's expectations during the reporting period with no major tenant movements or lease expiries.

The industrial portfolio (207 354m2) occupancy rate was at 99% at year-end.

Commercial

The commercial sector's performance has exceeded management's expectations with robust vacancy reductions as a result of a front-footed and aggressive letting strategy across the commercial portfolio. Commercial vacancies at year-end were at 2%, translating to 2 689m2 of unlet GLA. Office sector lease renewals continue to be concluded with positive rental reversions achieved in the vast majority of renewals concluded during the reporting period.

It remains our view that the general commercial office sector within the Western Cape and nationally may experience headwinds in the form of increased vacancies as a result of low economic growth, aggressive cost cutting and companies looking to significantly reduce operating overheads through space optimisation. Although the latter has not been experienced within the Spear commercial portfolio yet, management believes that a strong focus must continuously be placed on early tenant engagement and hands-on asset management to mitigate such effects without delay.

The commercial portfolio (109 667m2) occupancy rate was at 98% at year-end.

Retail

The retail portfolio consists of two convenience retail centres, both offering an ultra-convenience retail experience with ample parking. Spear's retail assets are located in high-growth nodes servicing the Century City and Northern Suburbs market. During the reporting period 48% (16 772m2) of retail GLA (34 648m2) was occupied by national retail tenants. Management has been gratified at the positive performance of its retail assets in addition to key retail tenants showing positive growth in store revenue and footfall.

Spear's retail assets will remain attractive locations for retailers to trade from given their high-quality tenant mix geared towards a convenience retail offering, ample shopper parking, ease of access and egress along with plum geographical locations offering easy access to all significant arterial transportation routes.

The retail portfolio (34 648m2) occupancy rate was at 96% at year-end.

Residential

Spear's residential portfolio for the reporting period continued to perform to the satisfaction of management with 100% occupancy rates. Currently only 2% of GLA is exposed to the residential sector. Management has stated its intention to increase Spear's residential holdings closer to 15% of GLA and 12% of portfolio value in the medium term with the development of approximately 200 residential units at Sable Square and 200 residential units in Paarden Island as part of its mixed-use development plans.

Hospitality

The current performance of the domestic economy and environmental impact continue to present challenges to the hospitality sector as both transient and group business have been severely impacted by the drought experienced in the Western Cape. The hospitality sector over the reporting period has continued to operate under extremely tough trading conditions. The drought in the Western Cape has been broken and a strong focus now is to rebuild on hospitality occupancies and room rates as a key recovery metric to the overall hospitality sector. The pace at which the recovery of the hospitality sector will take place at this stage remains uncertain due to the shift in interest by dominant markets to other destinations during this time. At best management is of the opinion that some green shoots on the recovery path have already started to show, however, meaningful recoveries will most likely only start to emerge towards the start of 2020.

Weakened local currency and volatile emerging and competing markets to our destination might aid our recovery in building buyer confidence in our overall offering. We have seen positive movement with the removal of prohibitive travel regulations to South Africa and further change to ease access to our shores has been tabled for consideration.

Although occupancies have shown better recovery signs, the biggest challenge will remain in recovering lost rate strength experienced during the downturn. As with most industries the hospitality sector is largely reliant on a positive election result, which will encourage economic growth and will contribute to the resurgence in Cape Town's image as one of the top destinations in the world for Leisure and Meetings, Incentives, Conventions and Exhibitions ("MICE").

The hospitality portfolio (28 153m2) occupancy rate was at 95% at year-end.

Tenant grading

	Gross lettable area m2	Gross lettable area %	Number of tenants	Number of tenants %
A - Large nationals, large listed and government tenants	252 269	63	111	28
B - Smaller international and national tenants	101 804	25	204	51
C - Other local tenants and sole proprietors	25 757	6	84	21
Development	14 830	4	-	-
Vacant	7 992	2	-	-
	402 652	100	399	100

Letting activity

Spear began the period with an opening vacancy of 6 334m2 and with 91 359m2 expiring during the year. Management has successfully renewed and re-let 96 560m2 at a positive reversion of 8.03%.

The table below reflects the letting activity of the period:

	Expiries and cancellations GLA	Gross rental at expiry	Gross expiry rental R/m2	Renewals/ New lets GLA	Gross rental at renewals/ New lets	Gross new rental R/m2	Rental reversion %
Commercial	17 409	2 378 813	137	20 487	3 016 016	147	7.74
Industrial	68 930	2 483 248	36	69 433	2 708 842	39	8.29
Retail	5 020	392 901	78	6 639	563 408	85	8.43
	91 359	5 254 961	84	96 560	6 288 265	90	8.03

Spear's lease expiry profile remains defensive with a WALE of 30 months.

Spear's asset and property management team has a hands-on approach to tenant retentions and actions 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

	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Vacant	2	3	3	2	-	2
Monthly	-	-	-	-	-	-
Expiries for 03/2019 - 02/2020*	12	24	6	-	-	13
Expiries for 03/2020 - 02/2021	40	31	17	1	-	31
Expiries for 03/2021 - 02/2022	17	15	25	1	100	18
Expiries for 03/2022 - 02/2023	8	10	11	-	-	8
Expiries for 03/2023 and onwards	21	17	38	96	-	28
	100	100	100	100	100	100

*Including No 2 Estuaries

Lease expiry profile based on revenue

	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Monthly	1	1	-	-	-	1
Expiries for 03/2019 - 02/2020	13	26	6	-	-	17
Expiries for 03/2020 - 02/2021	40	32	18	8	-	30
Expiries for 03/2021 - 02/2022	20	16	22	2	100	19
Expiries for 03/2022 - 02/2023	9	9	11	-	-	9
Expiries for 03/2023 and onwards	17	16	43	90	-	24
	100	100	100	100	100	100

Weighted average in force escalations and yields

	Escalation %	Yield %
Industrial	8.61	8.6
Commercial	7.77	8.6
Retail	7.95	8.6
Residential	8.00	9.0
Hospitality	Note 1	6.1
Group average	8.07	8.3

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 year ended 28 February 2019:

	Transfer date	Acquisition value R'000	Debt funding R'000	Cash funding R'000	Acquisition issue R'000	Acquisition yield %
Island Business Park, Paarden Island	08/03/2018	24 000	-	24 000	-	9.31
Blackheath Park, Blackheath	12/04/2018	110 500	49 725	60 775	-	10.43
Old Mutual Private Wealth, Century City	12/07/2018	98 000	-	98 000	-	9.22
1 Waterhouse Place, Century City	24/07/2018	114 500	-	62 500	52 000	12.22
Talana Close, Bellville South	12/11/2018	52 800	25 000	27 800	-	9.16
Northgate Park, Paarden Island	25/02/2019	313 000	180 000	133 000	-	9.26
		712 800	254 725	406 075	52 000	9.93

The group disposed of the following properties during the year ended 28 February 2019:

	Transfer date	Disposal value R'000	Cash payment value R'000	Disposal yield %
Tyger Manor, Tyger Valley	20/06/2018	75 000	75 000	8.00
142 Bree Street, Cape Town CBD	18/07/2018	150 000	150 000	3.00
Plum Park, Southern Suburbs	07/02/2019	30 200	30 200	8.60
Tanker Services, Atlas Gardens	07/02/2019	20 900	20 900	8.60
Biella Building, Rosendal	07/02/2019	31 500	31 500	8.60
Burger King, Strand	07/02/2019	4 600	4 600	8.60
Virgin Active George, George	07/02/2019	22 300	22 300	8.60
		334 500	334 500	7.71

Capital expenditure and redevelopment

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

- 78 on Edward, Tyger Valley

  Management actioned the redevelopment of two assets into a consolidated A-grade office building on Edward Street, Tyger Valley off the back of increased tenant demand and low overall area vacancies. The overall development costs of 78 on Edward on completion will be R89 million with a completion date being end of July 2019.

  The initial yield on cost will be 9% based on all vacant units being let in line with the approved development feasibility. At the end of the period management had concluded negotiations with users for 2 650m2 of the available 3 500m2 being developed.

  The development 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.

- 1 Waterhouse Place, Century City

  The property is located in the sought-after Century City precinct. The building is made up of 10 500m2 of office space over four levels with a parking ratio of four bays per 100m2 let.

  The property was acquired vacant at R10 000/m2 with a two-year head lease in place from the seller. Management has embarked on a full refurbishment project on this property with a capital expenditure allocation of R90 million. Based on management's feasibility and projected net income stream on completion a target yield will be in the region of 9.1%.

  At the end of the reporting period significant leasing interest had been shown with a 2 000m2 user already secured.

  Completion date of the 1 Waterhouse Place project will be July 2019.

- 15 on Orange Hotel and Spa, Cape Town

  Management had undertaken a critical assessment of the product offering at 15 on Orange and concluded that the hotel was not a beneficiary of the leisure market given certain limitations to the property at the time. Furthermore, the conference offering presented itself as detached from the food and beverage offering in the hotel, which hampered synergies between the two key components that typically should operate hand in hand. In consultation with Marriott it was agreed to relocate certain portions of the conference offering to the main hotel public area levels. Management has embarked on key enhancements to the pool area, food and beverage areas and conference areas allocating R44 million as capital expenditure on this property. The project is in its final stage of completion with the addition of a wellness spa to add to the product mix on site.

Capital allocation and strategic focus

Management acknowledges the vital role capital allocation plays in the formation of a high-quality real estate portfolio and will continue to use its capital to invest in high-quality assets within the Western Cape.

In the year under review Spear acquired R713 million of new assets at an average yield of 9.93%. A total of seven buildings were sold for R335 million at an average yield of 7.71%. The net disposal proceeds have been redeployed into the acquisition of four new assets for a gross consideration of R578 million (including debt, acquisition issues and vendor placements) at a blended yield of 9.97% and the reduction of bank debt of R74 million.

Management will furthermore deploy capital into yield-enhancing assets through acquisition or development with a primary focus on convenience retail, logistics-focused industrial and mixed-use assets. An amount of R50 million has been spent of committed capital expenditure for the refurbishment of two properties, being 15 on Orange and 1 Waterhouse Place.

Management will in addition to capital allocation continuously evaluate the disposal of portfolio assets where management believes maximum shareholder value can be achieved or where management believes the assets have reached the end of their life cycle within the portfolio. Disposal proceeds will be redeployed into larger, higher quality assets or debt reduction. It is commendable how management has shown its ability to prudently recycle capital into higher yielding and higher quality assets to unlock deep shareholder value. Management remains of the view that it will only seek investor funding when absolutely necessary and will only raise capital for its needs if acceptable placement pricing is achieved in the market.

Balance sheet and risk management

Active and prudent focus on our balance sheet will provide Spear with the ability to take advantage of opportunities that are presented in the market. Management maintains strong and unblemished relationships with its key funding partners, which result in advantageous funding arrangements. Management aims to maintain gearing levels within a range of 38% to 42% loan to value ("LTV") on group debt together with an acceptable hedging policy to provide income certainty in challenging economic times.

Spear's debt portfolio remains actively managed with an all-in cost of debt at the end of the reporting period of 9.01%. Currently 64.57% of Spear's interest-bearing debt is hedged at an effective all-in rate of 9.05%. Spear's cost of debt has decreased by 24 basis points since the start of the financial year. The group's gearing level at the end of the reporting period was at 39.58%, translating to a 2.85% increase from FY2018.

Cost-to-income

Net total cost-to-income for the period was 21.59%, increasing from 18.51% as at 28 February 2018. The increase is directly related to the significant increase in utility rates and property expenses.

Management will consistently endeavour to reduce the portfolio cost-to-income ratio. Any reduction in consumption charges, repairs and maintenance and portfolio operating costs will result in the cost-to-income ratio reducing towards the 20% level.

Administrative cost-to-income for the period was 5.92%, increasing from 5.85% as at 28 February 2018. The increase is directly related to the employment of additional staff with the increase in the property portfolio.

Distributable earnings

The board approved and declared distribution number 5 of 44.69 cents per share on 15 May 2019.

Total distribution for the year ended 28 February 2019 is 86.42.

The distribution declared is an increase of 10.09% over the distribution for the year ended 28 February 2018.

Borrowings and funding

The group obtained funding for property acquisitions through capital raises and an increase in bank borrowings as disclosed under acquisitions.

During the year R235.3 million worth of equity placement took place:

Share issue date	Number of shares	Price ('R)	Value R million	
1 May 2018	3.15 million	9.52	30.0	Acquisition issue
11 June 2018	11.85 million	10.00	118.5	Vendor consideration/ private placement
24 July 2018	5.2 million	10.10	52.5	Acquisition issue
16 November 2018	3.5 million	9.80	34.3	Vendor consideration/ private placement

Group gearing

	Gearing %	Variance %
31 August 2017	37.23	-
28 February 2018	38.48	3.36
31 August 2018	36.01	(6.43)
28 February 2019	39.58	9.92

In force cost of debt for period	Average %	Variance %	Average fixed cost %	Variance %
31 August 2017	9.23	-	9.51	-
28 February 2018	9.25	0.22	9.45	(0.60)
31 August 2018	9.04	(2.30)	9.09	(3.84)
28 February 2019	9.01	(0.28)	9.05	(0.48)

As at year-end prime linked loans bear interest at an average rate of prime less 1.13% and the average fixed rate is 9.05% for the next 12 months of operation. The rate does not include any potential interest rate increases from SARS.

		Amount R'000
Variable borrowing		539 359
Fixed borrowings		982 957
Total gross debt		1 522 316
Percentage fixed	(%)	64.57

Debt expiry	R'000	%
FY2019	-	-
FY2020	186 463	12
FY2021	512 957	34
FY2022	667 002	44
FY2023	155 894	10
	1 522 316	100

The weighted average expiry of the group debt is 25 months from 28 February 2019.

Tangible net asset value

	Tangible net asset value Rands	Growth (%)
31 August 2017	10.49	
28 February 2018	11.57	10.31
31 August 2018	11.63	0.49
28 February 2019	12.12	4.20

Receivables

Amid increasingly tougher trading conditions, receivables represented 2.47% of total revenue excluding smoothing. 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 macroeconomic 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 power rollout

As part of Spear's sustainability strategy, a renewable energy rollout has commenced with the first PV solar installation at Sable Square Shopping Centre in the Century City area. The PV solar installation is an 800kWh system at a cost of R9 million with a payback period of four years. The latter installation was commissioned on 1 October 2018. A further 12 assets have been earmarked as part of the phase one rollout, which would result in an additional 4.2MWp of renewable energy generated from alternative sources on property rooftops. Total earmarked expenditure for FY2020 will be R49 million with an average payback period of four years. On completion and full commissioning 40% of the Spear portfolio will be equipped with a PV solar solution.

Water continuity

Spear's water continuity programme continues to be implemented across key parts of the portfolio. Capital expenditure on water continuity projects have amounted to R5 million ranging from additional boreholes, water tanker trucks, water filtration systems and water storage tanks. The UES, home to the DoubleTree by Hilton Hotel in Woodstock, post the implementation of the water continuity plan is generating 90 000 litres 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 sanitisers where applicable. Pre-diluted cleaning materials have been deployed across the portfolio and where possible greywater is used for exterior cleaning and irrigation.

Board appointments

Shareholders were advised that Dr. Rozett Phillips had been appointed as a non-executive director with effect from 17 July 2018 and was approved by shareholders at the last AGM held on 10 August 2018.

Roze holds the position of Group Executive: People and Culture for Absa Group Limited, a large Pan-African bank.

Prior to joining Absa, Roze held the position of Management Consulting lead and Geographic Council member for Accenture Africa and Board member of Accenture South Africa. She served this organisation for 18 years. During her time there, she also served as the Middle East, Africa, Russia and Turkey Innovation lead, creating the enablers for Accenture to lead Innovation in the region, working at the intersection of business and technology.

Roze is Executive Sponsor for BornToSucceedWomen, a public benefit organisation dedicated to helping young South African women with the necessary skills and mentorship to prepare for the workplace and find employment.

Roze holds both Bachelor of Medicine and Surgery (MBChB) (1995) and Master's of Business Administration (MBA) (1999) degrees from the University of Cape Town and a postgraduate diploma in Future Studies (2016) from the University of Stellenbosch Business School.

Roze proudly mentors young black African men and women to unleash their full potential and is a frequent public speaker and blog writer on the topics of the Workforce of the Future, New Skills Now and Empowerment of women, young people, the poor and marginalised.

Outlook

The core portfolio of Spear remains defensive in nature underpinned by strong lease covenants and high-quality tenants. Management is confident given the diversified mix of assets, tenant profile and its own hands-on asset management approach that Spear will deliver on its guidance for the 2020 financial year. The macroeconomic environment in South Africa together with sluggish economic growth remains a general concern for management. It is our firm belief that a positive election outcome will position South Africa on the right growth trajectory presenting further growth and investment opportunities for both local and international investors. Spear is committed 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. To this end:

- 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

- Management remains heavily invested in Spear and has committed to the retention of respective investments within Spear to reinforce its alignment with shareholder interests

- 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

- The company will continue its tenant-centric approach, which has created strong customer loyalty and high tenant retention rates within the core portfolio.

Prospects and guidance

The Western Cape property sector has proven to be more resilient than most other provinces in South Africa as demand for its real estate has notably been higher than in most other parts of South Africa. Western Cape infrastructure in our view is of a superior standard to the majority of South Africa in the form of roads, telecommunication and other key infrastructure facilities, which makes doing business across the entire Western Cape possible. Spear remains committed to its Western Cape only strategy with its regional specialisation management's single-minded focus - allowing for it to be first out the blocks to take advantage of portfolio and earnings enhancing opportunities. Spear continues to have a healthy pipeline of greenfield and brownfield development opportunities within the portfolio, which will unlock further value for the group in time.

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 political and tough economic environment remains a concern as business sentiment continues to deteriorate and the increased cost of living places continued pressure on the general population.

Within a low-growth economic environment increased pressure on general business may result in undue pressure on the commercial office market as companies move to cut overheads and optimise their trading space. The potential for an upward trend in commercial office vacancies in a low-growth economy may be a tough reality that lies ahead.

Trading conditions within the hospitality sector have started to improve, but not at the rate management would have preferred with early green shoots becoming evident in hotel occupancies and bookings, but the recovery in room rates lagging behind the occupancy growth experienced since the end of the water crisis in the Western Cape.

Management has to the best of its ability forecast its earnings with the above in mind, having taken the necessary steps to best mitigate against any further downturn.

Management's guidance for the 2020 financial year is a distribution growth of 6% to 8% per share.

The guidance is based on the following assumptions:

- 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

- The trading conditions continue to improve in the overall tourism sector directly related to hotel occupancies and room rates

- That stage 3 and 4 load shedding do not become a regular occurrence in South Africa during the year.

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 on reliable information provided to management.

No representation, warranty, undertaking or guarantee of whatsoever nature is made or given regarding 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 and reported on by Spear's independent external auditors.

Subsequent events

The directors are not aware of any events, other than those listed below, which have occurred since the end of the financial period and have a material impact on the results and disclosures in the provisional summarised audited consolidated financial results for the year ended 28 February 2019. The group took transfer of the following properties after period end:

	Transfer date	Acquisition value R'000	Debt funding R'000	Equity funding R'000
26 Marine Drive, Paarden Eiland	07/03/2019	39 300	15 300	24 000

The group disposed of the following subsidiary after period end:

	Disposal date	Disposal value R'000
Pacivista Proprietary Limited	01/04/2019	74 000

The group entered into an agreement after period end to acquire Radnor Road, Tygerberg Business Park, for R112 million at a 9.1% yield. Expected transfer is 1 June 2019.

Basis of preparation

The provisional summarised consolidated financial statements are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional 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, IFRS 9 and IFRS 15, all accounting policies applied in the preparation of these provisional summarised consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. There was no material impact on the annual financial statements as a result of the adoption of these standards.

The auditors, BDO Cape Incorporated, have issued their opinion on the group's consolidated and separate financial statements for the year ended 28 February 2019. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. The provisional summarised consolidated financial statements have been derived from the group financial statements and are consistent, in all material respects, with the group financial statements, but is itself not audited. The directors take full responsibility for the preparation of the provisional summarised consolidated financial statements and for ensuring that the financial information has been correctly extracted from the underlying audited annual financial statements. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of that report together with the accompanying financial information from Spears' registered office.

Christiaan Barnard CA (SA), in his capacity as Chief Financial Officer, was responsible for the preparation of the provisional summarised consolidated financial statements for the year ended 28 February 2019.

Final distribution for the year ended 28 February 2019

Notice is hereby given of the declaration of final distribution number 5 of 44.69081 cents per share for the year ended 29 February 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 South African tax 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 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 35.75265 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms 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 188 888 709.

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	Wednesday, 15 May
Last day to trade cum-dividend distribution	Tuesday, 4 June
Shares trade ex-dividend distribution	Wednesday, 5 June
Record date	Friday, 7 June
Payment date	Monday, 10 June

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 June 2019 and Friday, 7 June 2019, both days inclusive.

In respect of dematerialised shareholders, the distributions will be transferred to the CSDP account/broker accounts on Monday, 10 June 2019. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 10 June 2019.

On behalf of the Board
Spear REIT Limited

Cape Town
15 May 2019

Abubaker Varachhia	Quintin Rossi	Christiaan Barnard
Non-executive Chairman	Chief Executive Officer	Chief Financial Officer

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
(Executive Deputy Chairman)
Quintin Michael Rossi
(Chief Executive Officer)
Christiaan Barnard
(Chief Financial Officer)
Brian Leon Goldberg*#
Jalaloodien Ebrahim Allie*#
(Lead Independent Director)
Niclas Kjellstrom-Matseke*#
Cormack Sean McCarthy*
Dr. Rozett Phillips*#

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# Independent

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Rene Cheryl Stober

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Bankers

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Investec Limited
Standard Bank Limited