Stor-Age Property REIT Limited
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Approved as a REIT by the JSE
("Stor-Age" or the "Company" or "group")

TRADING STATEMENT – BUSINESS UPDATE AND SMALL RELATED PARTY TRANSACTIONS

Stor-Age, South Africa's leading and largest self storage property fund, provides the following trading update ahead of the announcement of its full-year results.

A. BUSINESS UPDATE

1. Trading performance to March 2020 and dividend guidance

In a challenging macro and trading environment in both South Africa ("SA") and the United Kingdom ("UK"), Stor-Age continued to deliver a strong operating performance, reflecting the resilient nature of our portfolio and specialist sector skill.

Intense operational focus and discipline at a property level, together with our specialised digital marketing capabilities, allowed us to continue extracting occupancy and revenue growth. Our hands-on management approach across both markets remains critical to delivering superior performance.

Despite increasing pressure on consumers and a stagnating economy, the SA portfolio closed at 85.0% occupancy with an increase in occupied space of over 9 500m² for the year and the closing rental rate up 6.0% year-on-year. In the UK, our closing portfolio occupancy was 78.8%. Excluding the acquisition of Flexi Store (see below) occupied space increased by 800m² with average occupancy up over 4.0% year-on-year while the closing rental rate was up 1.0% on a like-for-like basis.

Our balance sheet position remains strong. Our LTV ratio of approximately 30% at year end provides us with headroom to navigate the current period of uncertainty. We remain highly disciplined and focused in the execution of our strategy including capital allocation.

In December 2019, we closed the UK acquisition of the five property Flexi Store portfolio at a purchase consideration of £13.4 million and an estimated forward yield of 7.29%. Although completion of the transaction was delayed from the originally anticipated August 2019 date, which had a negative impact on earnings for the second half of the year, performance to date has broadly been in line with expectations. The acquisition was in line with the stated UK growth strategy – presenting complementary locations, trading into dense catchment areas, having minimum gross lettable area target sizes and attractive trading histories.

We expect full year distributable earnings to be approximately R440 million, growing by approximately 13.5% from the prior year, and the full year dividend per share to be approximately 112.0 cents, up 5.0% on the prior year.

The above dividend forecast has not been reviewed and reported on by the external auditors.

2. Covid-19 update

Stor-Age is well positioned both financially and operationally to navigate the current period of uncertainty.

Stor-Age and the self storage business model have a track record of resilience in constrained economic environments. While there is little doubt about the pending significant contraction in the economy in both SA and the UK, the primary drivers of demand for our product are life-changing events and / or dislocation, be they positive or negative in nature. Demand is further supported by the fluctuation of economic conditions. Our customers typically require the product either temporarily or permanently for various reasons throughout the economic cycle. This creates a market depth that is a significant contributing factor towards the resilience of the self storage product.

Stor-Age is also well positioned to benefit in the medium to long-term from the rapid acceleration of change brought about by the current crisis. We anticipate that the incremental use of technology as an enabler within business and greater adoption by society at large will result in an increasingly mobile population. The impact on where and how people live and work, as well as the possibility of business models evolving to require less operational space, will in our view give rise to incremental demand for our product in both SA and the UK.

Pre-lockdown

Prior to the implementation of the lockdown in SA and the UK we saw no noticeable impact on our key trading performance indicators.

Business continuity plans were enacted prior to the lockdown and have been working well in ensuring a seamless continuation of operations, despite our head office teams in both markets working remotely. Our primary responsibility at all times has been the safety, health and well-being of our staff and customers. Our properties are not crowded environments and are typically low-intensity in their use relative to other real estate types, allowing for social distancing to be practiced with little effort. We also immediately increased our focus on hygiene and cleanliness across our portfolio of properties.

We also put in place contingency plans in the event of reduced staffing levels in order to manage the possibility of increased absenteeism as a result of self-isolation or illness.

In SA, in accordance with government regulations, our head office re-opened to certain categories of eligible staff on a proportional rotational basis on 6 May 2020.

Lockdown

The provision of storage or “mini-logistics” forms an essential part of the logistics network. Our objective has been to keep the properties accessible for customers in so far as we can, so that those providing essential services can continue to do so uninterrupted and / or those tenants storing essential goods can retrieve them seamlessly. In addition, in SA and the UK we immediately offered complimentary storage space to a number of relief and government based entities including the Western Cape Government, Community Chest and the National Health Service.

In SA, our properties remained accessible throughout the lockdown for tenants either storing essential goods or providing essential services as defined by the government regulations. Our properties in the UK remained and continue to be open for business but under strict operating conditions. In both markets, the properties were managed by one member of staff, in a locked retail store environment on-site, ensuring strict social distancing. As of 18 May 2020, in order to effectively manage the pent-up demand for space at our properties, all store managers in both SA and the UK are expected to have returned to work.

Soon after the lockdowns began in both markets, we successfully activated an online e-sign capability for the completion of new leases, allowing for the facilitation of a “contactless” digital sign-up and move-in process.

In line with expectations, we immediately saw a significant reduction in both move-in and move-out activity in both SA and the UK as soon as the lockdowns began. In SA the impact was largely offsetting in April. In the UK we saw a reduction in occupancy in the last two weeks of March, carrying through to April.

The increased level of costs attributable to sanitising, protective equipment and updated on-site signage has been more than offset by the reduction in marketing spend throughout the lockdown, principally driven by a notable reduction in “pay-per-click” advertising costs.

In line with our updated enquiry forecast after the lockdown was announced, we immediately saw enquiry levels drop significantly from the end of March. Coinciding with the government’s announcement to move to level four restrictions in SA at the beginning of May, we saw a noticeable increase in demand as citizens were provided with the first bit of information that supported improved visibility to increased personal and business mobility.

Along with the move to level four, we saw a higher level of move-outs relative to move-ins during the first weekend in May. The move-outs were principally linked to the allowed increased mobility of the population (i.e. a proportion of customers who would ordinarily have moved-out at the end of March and / or April because they had come to the natural end of their need for the product, did so during the first weekend of May). The move-outs were significant lower than we would normally expect in a month.

After the amendment to the regulations allowing for the movement of households was announced on 7 May, enquiries returned to normalised levels, in line with what we would expect to ordinarily observe at this time of the year. We immediately saw an improved move-in trend in the days following the announcement. On 14 May 2020, the government further relaxed the rules around moving, expressly including commercial operations and removing the time limitation of 7 June 2020 (as included in the 7 May 2020 update).

In the UK, the start of the lockdown was immediate as opposed to SA where citizens were provided with a few days to prepare accordingly. Despite being implemented immediately, it was evidently less restrictive on citizen’s mobility relative to SA, albeit that it became progressively stricter over the ensuing weeks. While overall activity (move-ins and move-outs) was severely curtailed relative to ordinary activity levels from the announcement of the lockdown to the end of March, it still gave rise to a larger negative impact on move-ins compared to move-outs.

In the UK, while we saw a drop off in enquiries at the start of the lockdown relative to normal trading activity, it was not as significant as the reduction in SA. For the month of April our enquiry levels were approximately 24% lower than the corresponding period last year. This included certain properties where despite the impact of the pandemic and lockdown, we in fact saw enquiries being stronger than we originally forecast.

From the start of May, we have seen enquiry levels in the UK return to pre-Covid-19 normalised levels. With new regulations coming into effect on 13 May 2020, allowing buyers and renters to once again view properties physically, arrange removals and move home, we expect this to provide a further impetus towards normalised pre-Covid-19 activity levels.

For enquiries, as at close of business on 13 May, we were 16% and 19% ahead in SA and the UK respectively on a year-on-year same store basis. We typically see a more significant contribution to total enquiries generated each month in the last two weeks of the month.

Rental collection and debtors update

In April 2020 we collected 92.2% and 98.0% of rental due in SA and the UK respectively.

The collection of rentals and recovery of debt remains a key focus area. Given the elevated risk levels in this area and the expected strain that the public at large is expected to come under over the coming months, we have committed additional resources to the task of collections.

3. Development update

Prior to the start of the lockdown in SA we had commenced construction activity at Stor-Age Tygervalley and we expected to open in early 2021. Construction will recommence once restrictions are relaxed in line with government regulations and the project completion will shift out accordingly.

The value engineering process for Stor-Age Cresta and Stor-Age Tygervalley was completed in January 2020. Thereafter, the independent third-party quantity surveyor was appointed by the non-executive directors to provide a due diligence report on the cost estimates for each project. The due diligence report for the contract value for Stor-Age Sunningdale was issued on 27 January 2020 and for Stor-Age Cresta on 26 February 2020. Having considered the due diligence reports, the non-executive directors provided the necessary authorisation for the Company to enter into the contracts with the contractor, Madison Square Holdings ("MSH") on 11 March 2020. The JSE provided confirmation on 31 March 2020 that the due diligence reports comply with the required disclosure, pursuant to its ruling provided on 31 October 2019, and that the independent third-party quantity surveyor has opined on the fairness and reasonableness of the transactions.

As a result of the lockdown, by mutual agreement the parties to the above contracts immediately entered into an agreement by way of an addendum on 31 March 2020, to delay the start dates of construction, subject to an assessment by the parties at least once every four-week period.

4. UK developments – non-binding Heads of Terms entered into with UK based private equity real estate group

Our UK property growth strategy includes acquiring existing trading self storage properties from third-parties, new developments and the introduction of Management 1st (a comprehensive third-party management solution offered to independent operators, developers and private equity owners in the UK).

One of the unique characteristics of the self storage development model is the lease-up of the property to a stabilised and mature level of occupancy, with the lease-up forming a considerable component of a property's overall formation cost. In order to mitigate the financial impact of the lease-up, it is desirable to develop new properties in conjunction with a development partner.

On 19 March 2020, the group entered into a non-binding Heads of Terms with a UK based specialist private equity group to form a joint venture ("JV") to develop a five to seven asset portfolio with a gross asset value of approximately £50 million.

Summary of terms:

- Equity ownership c. 25% (Stor-Age): 75% (PE)
- Initial JV equity £25m
- Target to achieve approximately 50% loan to cost for new developments
- Group to earn development and property management fees from the JV
- All properties to be branded and managed by Storage King
- Group to have pre-emptive rights to acquire the properties, subject to various terms and conditions

Discussions are progressing to finalise definitive binding documentation.

5. Capital structure

Stor-Age is well capitalised with a strong balance sheet. The board is satisfied that the group has access to sufficient undrawn debt facilities. Apart from Stor-Age Tygervalley where construction was underway prior the announcement of the lockdown, all other planned capital expenditure (approximately R30 million) has been placed on hold and is subject to monthly review.

At 31 March 2020 the group had cash and undrawn debt facilities as follows:

	ZAR m	**GBP m**
Cash (including cash held in debt facilities)	199.5	2.1
Undrawn debt facilities	574.4	3.8

The group's ZAR borrowings are approximately 75% hedged on a net debt basis as at 31 March 2020. The group's GBP borrowings are 82% hedged on a net debt basis as at 31 March 2020, In light of the recent reductions in interest rates in both markets, the board considers these levels of interest rate hedging to be appropriate in the current circumstances. The board will continue to review the hedging position on an ongoing basis.

The group's debt profile has a spread of maturity dates sourced from a range of banks. The earliest maturity on its ZAR borrowings is R375 million in October 2021. The average maturity of the group's ZAR and GBP borrowings is 2.5 years and 4.4 years respectively.

6. Outlook

Stor-Age CEO Gavin Lucas commented, "Given the extremely high levels of uncertainty and constantly changing government regulations, it is impossible to accurately predict the full impact of the Covid-19 crisis on our business. Despite this, Stor-Age entered the current cycle from a position of strength and we continue to benefit from a high quality property portfolio spread across both SA and the UK, a very well-managed balance sheet and deep sector specialisation. This is within the context of a sector that is well-positioned to support the life-changing events driven by the virus itself, the potential economic dislocation post the initial lockdowns, as well as the increasing mobility of the population linked to the acceleration of technology-based solutions for both households and businesses alike. The defensive and resilient nature of our business model, as evidenced by our cash collections in April and the high levels of new enquiries and new-lets in the current month to date, means we are well placed to navigate the challenges that lie ahead."

B. SMALL RELATED PARTY TRANSACTIONS – CONSTRUCTION AND REFURBISHMENT SERVICES PROVIDED BY MADISON SQUARE HOLDINGS CC ("MSH")

1. Introduction

As set out above, the Company entered into agreements ("the Agreements") with MSH on 30 March 2020 for the provision by MSH of construction and refurbishment services ("the MSH Services"). The Company also entered into an addendum to each of the Agreements dated 31 March 2020 in which the start dates of the MSH Services have been put on hold by mutual agreement and the dates of possession of the site(s) by MSH will be assessed at least once every four-week period. The Company's non-executive directors provided confirmation to the JSE that the terms and conditions of the Agreements are market-related.

The Company employs the services of an independent third-party quantity surveyor to provide the necessary guidance and assurance to the non-executive directors that the terms and conditions of the Agreements are in line with market-related terms and conditions for such services. The non-executive directors rely on this independently procured assurance in order to assess the terms and conditions of the Agreements, and to approve them. The independent third-party quantity surveyor has been approved by the JSE as an expert in accordance with the Listings Requirements.

Following engagement with key shareholders the board confirms that the executive directors of the Company are in discussions with parties interested in acquiring MSH.

2. Rationale for the agreements

The MSH Services assist the Company with the construction, refurbishment and expansion of its property portfolio in line with its strategy.

3. Details of the agreements

Property	Total value of project	Key terms	Effective date of payment
Cresta	R59 023 571	Construction of a new self storage development	To be paid monthly in various instalments commencing on a mutually agreed date for approximately 13 months
Sunningdale (note 1)	R15 347 625 (phase I)	Construction of Phase I of a new self storage development	To be paid monthly in various instalments commencing on a mutually agreed date for approximately 10 months

Note 1: To be developed in a joint venture with Garden Cities. Value of project represents Stor-Age's 50% equity interest in the development.

4. Categorisation and confirmation of market related terms and conditions

The Agreements, when considered on an aggregated basis, constitute small Related Party transactions in terms of the Listings Requirements.

The sole member of MSH is the Stor-Age Property Holdings Trust ("SPH Trust"). Gavin Lucas, Stephen Lucas and Steven Horton, who are the executive directors of Stor-Age, are ultimate beneficiaries of the SPH Trust. MSH is an associate of the executive directors of the Company and is therefore deemed to be a related party to Stor-Age.

The non-executive directors have confirmed to the JSE that the terms and conditions of the Agreements are considered to be market-related, after having received, inter alia, a report from an independent third-party quantity surveyor in respect of each property ("the QS Reports"). A copy of the non-executive directors' resolution and the QS Reports will be available on request from the Company Secretary.

Cape Town
18 May 2020

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