

SPEAR REIT LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 2015/407237/06)

Share code: SEA

ISIN: ZAE000228995

LEI: 378900F76170CCB33C50

Approved as a REIT by the JSE

(“Spear” or “the Company”)



SPEAR
REIT LIMITED

VOLUNTARY OPERATIONAL AND FINANCIAL UPDATE FOR THE THREE MONTHS ENDING 31 MAY 2022

1. INTRODUCTION

Spear is pleased to provide a high-level operational and financial update for the three months ending 31 May 2022 (“Q1”) for the financial year ending 28 February 2023 (“FY23”).

Spear’s hands on regional focus continues to positively impact business operations in FY23. Whilst FY23 is still in relative infancy, management is pleased to report that the core portfolio is performing in line with management’s operating strategy and forecast. Asset management initiatives are yielding positive early stage results as letting activity and tenant renewal & retention milestones continue to be reached.

Trading conditions remain tough, as South Africa’s low growth environment persists and inflationary pressures drive increases in costs across the board, inclusive of interest rates which management has proactively managed.

The robust Western Cape provincial and municipal infrastructure provides Spear with numerous investment and development opportunities, bolstering both the organic and inorganic growth impetus of the business. Spear has successfully concluded numerous new lease agreements across the core portfolio resulting in a portfolio vacancy factor decline of close on 10 bps compared to FY22. The uptake of vacant office space across the commercial portfolio is encouraging and evident of the ongoing return to office momentum communicated to shareholders.

Operational performance of the underlying portfolio continues to display resilience as financial and asset management objectives are executed successfully. Renewal and reletting activity for Q1 have resulted in an overall decline in core portfolio negative rental reversions from FY22 of -5.57% to Q1 FY23 of -4.31%. Management’s obsessive regional focus, proximity to assets, active asset management and early engagement strategies continue to accelerate Spear’s navigation back towards a pre-Covid 19 trading profile.

Spear’s Western Cape specialisation remains a key component to the ongoing financial and operational achievements year-to-date as key ratios have improved during Q1 (as set out in the tables below) compared to FY22. Notable improvements in loan-to-value, interest cover ratio’s, cost to income ratio’s as well as fixed debt ratios during this update period continue to position Spear for growth throughout FY23.

Whilst the macro-economic conditions remain extremely challenging, management remains intently focussed on the execution of strategic asset management objectives that

will maintain high levels of rental recoveries and occupancy percentages across the various asset types. Spear's core portfolio remains of a high-quality and defensive nature, positioned to take advantage of growth opportunities in the Western Cape.

Spear's balance sheet and income statement remain in a healthy state as receivables reduce on a consistent basis resulting in a high percentage of cash collections for Q1. Spear's consistent and sustainable cashflows across the portfolio will be maintained throughout FY23 and beyond as 100% of rental income is fixed contractual income with zero exposure to any variable income producing assets.

2. OPERATIONAL UPDATE FOR THE THREE MONTHS ENDING 31 MAY 2022

Sectoral Update:

Industrial:

Spear's industrial portfolio has maintained its robust performance during Q1 with ongoing demand for industrial rental opportunities across the portfolio. Management's focus will be to further increase Spear's portfolio exposure to this asset type across multi-let industrial, warehousing, manufacturing and logistics assets to take advantage of the demand in the market through the acquisition of brown and greenfield growth opportunities. Letting activity and lease renewals during Q1 have been fully in line with management's forecast.

Convenience Retail:

Spear's convenience retail portfolio has remained consistent in trading with high occupancy rates, generating stable cashflow output for Spear and driving down overall portfolio negative rental reversions. None of Spear's retail assets are reliant on any form of local nor international tourism to support its trading success. All of Spear's retail assets are classified as convenience with 41% of the retail portfolio gross leasable area ("GLA") occupied by national tenants on long-dated leases. Tenant feedback across the retail asset base has been positive as turnover increases are reported and reinvestment into stores, through upgrades and renovations commence. The two fitness gym's within the retail portfolio have been back to 100% of rental payments since 1 April 2022.

Commercial:

Spear's commercial portfolio is very well positioned to be a net beneficiary of the return to office momentum currently underway. Increased letting activity across Spear's office assets has been encouraging, with inroads made into decreasing office vacancies at No. 2 Long Street, Northgate Corporate Park, No. 1 Waterhouse, Century City and Bloemhof Building and Tygervalley during Q1. Currently a further 3 000 m² of office space is in advanced negotiations stage which should meaningfully contribute to further decreases in portfolio vacancy percentages during the course of FY23. Management and the leasing team have kept a close eye on the office portfolio as vacancy creep has been the most prolific in this sector since the start of the Covid-19 pandemic.

Hospitality:

15 on Orange is a fixed income triple net lease with The Capital Hotels & Apartment Group. Spear has zero exposure to hotel operations, repairs and maintenance, fixtures, fittings and equipment replacement at the hotel. Positive occupancy rate growth coming out of the pandemic trading environment has been reported along with positive trading across all revenue centres for the hotel operator. Generally, Cape Town has been busier

with business travel and international travel rebounding strongly together with a sooner than expected recovery in the meetings, incentives, conferences and exhibitions (“MICE”) sector.

		Industrial	Com- mercial	Retail	Hos- pitality	Total Q1	FY22 Q1	FY22 Total
Total GLA	m ²	247,047	132,898	48,951	16,663	445,559	470,881	457,950
Vacancy % of total	%	1.50	3.92	0.64	2.90	6.16	6.08	6.24
Sector vacancy %	%	2.70	13.13	5.83	2.90	-	-	-
Reversion % YTD	%	-2.97	-3.22	13.42	-	-4.31	-5.79	-5.57
WALE	Months	23	26	29	74	26	26	27
Average escalation	%	6.46	6.20	6.20	7.00	6.26	6.54	6.31
Collections	%	96.77	95.31	94.97	95.68	95.54	95.03	97.92
Revenue Billed	R'000	44,112	67,526	22,453	9,019	143,209	133,246	554,836

		Group FY23 Q1	FY22 Q1	FY22 Total
Loan to value	%	38.33	45.34	39.05
Interest cover ratio	Times	2.59	2.09	2.19
Tangible net asset value	R	11.47	11.98	11.30
Total distributable income	R'000	48,262	37,397	170,975
SA REIT Cost to Income	%	43.37	43.82	44.30
SA REIT Administrative cost to income	%	6.63	8.47	6.86
Weighted average cost of debt	%	7.56	7.26	7.32
Weighted average cost of variable debt	%	6.42	5.68	5.92
Weighted average cost of fixed debt	%	8.34	8.66	8.34
Fixed debt ratio	%	68.59	55.83	67.03
Weighted Average expiry of debt	Months	25.05	24.84	28.26
Number of net shares in issue	000	234,035	205,685	234,432

Acquisitions and disposals

Management remains committed to prudently recycle capital into strategic assets in line with its focus of growing long-dated portfolio exposure to industrial and convenience retail assets. Current portfolio assets identified for disposal that have achieved maximum value for Spear will be disposed of to fund part of Spear’s growth strategy. Management will redeploy disposal proceeds into higher quality assets within the Western Cape offering improved longer term cashflows and tenant covenants. Per the schedule below, management’s acquisitions and disposals for the period bear testament to the above strategy.

ACQUISITIONS			
Property Name	Purchase Consideration	Transfer Date	Initial Yield
27 Junction Road, Parow	R65 million	09/05/2022	9.78%
DISPOSALS			
Property Name	Disposal Consideration	Transfer Date	Premium to Book
6 Talana Close, Parow	R71.4 million	08/04/2022	8.00%
Island Business Park, Paarden Eiland	R22.5 million	24/06/2022	7.00%
UNDER DUE DILIGENCE			
	Disposal Consideration	Anticipated DD confirmation	Premium to Book
Property 1	R85 million	01/07/2022	2.84%

3. FINANCIAL UPDATE

Group funding

A further R50 million of variable debt expiring in FY23 has been settled in Q1 and proceeds from further property disposals will be utilised to settle further variable debt.

Covenants

	Covenant	31 May 2022
Loan-to-value	50%	38.33%
Interest cover ratio	2 times	2.59 times

Cash Collections and availability

The Spear group collections remain strong and post the FY22 final distribution payment, the Spear group has R210 000 000 in cash available. The positive increase in collections and the increasing cash availability will support a continued dividend pay-out ratio of 90%.

4. FORECAST

Based on Spear's operational and financial performance year-to-date, Spear remains on track to achieve management's guidance set out to the market for FY23. Management's guidance remains a DIPS growth of 5% - 7% for FY23.

The guidance is based upon the following assumptions:

- National State of Disaster is not unnecessarily prolonged;
- No further Covid-19-related lockdowns;
- Vacancies are reduced in line with forecasts;
- Lease renewals are concluded per the Company's forecast;
- No major tenant failures occur during the year;
- Tenants successfully absorb rising costs associated with utility charges and municipal rates; and
- Load shedding does not become a permanent feature in the operating environment.

Any changes in the above assumptions may affect management's forecast for the year ending 28 February 2023.

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 with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

The forecast for the financial year ending 28 February 2023 is the sole responsibility of the directors and has not been reviewed or audited by Spear's independent external auditors.

Cape Town
28 June 2022

Sponsor
PSG Capital



PSG CAPITAL