

Delta Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/005129/06)
Share code: DLT ISIN: ZAE000194049
("Delta" or "the Company" or "the Group")
REIT status approved

VOLUNTARY PRE-CLOSE OPERATIONAL UPDATE

Shareholders are advised that the Company's closed period with respect to the six months ended 31 August 2022 ("the interim period"), commences on 1 September 2022 and is anticipated to conclude on or about 08 November 2022, with the publication of the half-year results.

Strategy Implementation

In the interim period, the Board of Directors of Delta approved a refined strategy. This strategy is currently being implemented with notable progress being made. The strategy identifies certain strategic pillars to focus on, for example, portfolio and capital structure optimisation, operational efficiency as well as leasing and business development. The strategy is aimed at driving Delta's turnaround and ensuring that the Group returns to declaration and payment of sustainable distributions as soon as possible.

Portfolio Optimisation

Part of the Group's portfolio optimisation strategy includes the disposal of non-core assets, which are largely vacant. A total of 26 assets with a value of R767 million have been earmarked for disposals in the current financial year. In line with this objective, an aggregate 58 345m² of GLA was disposed of during the period for a total amount of R259.2 million.

Proceeds from disposals will be utilised to reduce debt levels; consequently, we expect an improvement in the interest cover ratio as a result of reduced interest payments. Other benefits of the proceeds include an improvement to the portfolio occupancy rate and a marginal improvement on the cost-to-income ratio on the back of lower operational costs (such as repairs and maintenance, security and cleaning costs).

Although portfolio vacancies increased from 31,3% to approximately 33,9% this interim period, vacancies are expected to reduce to approximately 32,1%, as a result of the abovementioned disposals, once transfer of the properties take place. The overall Loan-to-Value ("LTV") will reduce by approximately 1,4% (compared to February 2022) as a result of the disposals. Interest savings are expected to amount to approximately R22.7 million per annum based on Delta's current cost of debt.

The list below provides details of the properties that have either been transferred post the sale or those where a sale agreement has been signed:

No	Property name	Disposal value	GLA (m2)
1	Delta House*	R 74 000 000	11 439
2	Cape Road	R 38 000 000	5 135
3	3 Simba	R 15 500 000	3 696
4	5 Simba (Lobedu)	R 22 500 000	5 375
5	Fort Drury & Katleho**	R 64 000 000	16 386
6	CNA building	R 3 800 000	2 306
7	WB Centre	R 31 000 000	7 639
8	Trustfontein & Transtel***	R 10 400 000	6 369
	Total:	R 259 200 000	58 345

Notes:

* Delta House was transferred on 13th July 2022.

** Fort Drury and Katleho are separate properties that are notarially tied, therefore, have been sold as a package.

*** Trustfontein and Transtel are adjacent properties that have been sold as a package.

Debt Reduction

During the interim period Delta reduced debt by approximately R177.1 million. Approximately R72.3 million of this is due to the disposal of Delta House and the balance of R104.8 million being the repayment of capital.

Rental Collections

Delta's ongoing focus on rental arrear recoveries continues to result in strong collections that have averaged in excess of 100% per month during the interim period. This has had a positive impact on cashflow and assisted in the reduction in arrears.

Lease renewals

During the interim period, approximately 6,500m² of new leases were concluded with an additional 156,032m² renewed. The majority of renewed leases were with the Department of Public Works & Infrastructure ("DPWI") which resulted in month-to-month leases substantially reducing from 28% to 12,3%. The average term of these leases range from 12 to 24 months. Negotiations for the renewal of

the balance of the outstanding month to month leases and the extension of the recently renewed 12 to 24 months leases with DPWI are ongoing.

Capital expenditure

Capex projects continue to be a major focal point for Delta. Capex amounting to approximately R31 million was spent in the interim reporting period.

Sustainability and ESG

Delta has completed the first phase of its ESG framework development process; the expectation is for phase two to be completed by November 2022. The first phase included conducting peer benchmarking research. Phase two includes the development of a fit for purpose ESG framework.

Grit Shares

The disposal of Delta's non-core interest in Grit Real Estate Income Group remains a priority. In order to facilitate the disposal, Delta intends migrating its holding from the Stock Exchange of Mauritius to the London Stock Exchange.

Litigation

Delta issued summons against the liquidators of Somnipoint (Pty) Ltd (In liquidation) for payment of the sum of R27,1 million plus interest that it owes Delta. Somnipoint's liquidators subsequently filed a counterclaim against Delta seeking the sum of R91,3 million. Delta raised an exception to the counterclaim. The matter is pending.

Outlook

The office sector is expected to remain under pressure considering the current oversupply, tenants upgrading to premium space at highly competitive rentals and lease terms and the move to a hybrid work model.

Rising inflation and interest rates will put additional pressure on landlords. These macro-economic headwinds are expected to constrain the filling of vacancies as well as the disposal of assets at desired disposal values. Management and the Board will continue to apply a prudent approach to disposals, based on the long-term holding costs of especially largely vacant assets.

The above pre-close operational update has not been reviewed or reported on by the Company's external auditors.

Johannesburg

31 August 2022

Sponsor
Nedbank Corporate and Investment Banking, a division of Nedbank
Limited