

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")



SPEAR
REIT LIMITED

CATEGORY 2 DISPOSAL ANNOUNCEMENT – LIBERTY LIFE BUILDING

1. INTRODUCTION

Shareholders are advised that on 13 February 2023 ("**Signature Date**"), Spear entered into a sale of rental enterprise agreement ("**Agreement**"), in terms of which Agreement, Spear will dispose of the property known means Erf 6281 Montague Gardens, held by Spear under Deed of Transfer T14523/2020, with all improvements thereon ("**Property**"), and the rental enterprise conducted by Spear on the Property ("**Rental Enterprise**"), as a going concern ("**Disposal**"), for a disposal consideration of R400,000,000 ("**Disposal Consideration**").

2. RATIONALE FOR THE DISPOSAL

- 2.1. The Property, which forms part of Spear's commercial office portfolio, was acquired by Spear in 2019, prior to the onset of the Covid-19 pandemic. In the wake of the global pandemic and its residual effects on global and local corporate office accommodation and the way in which some large corporates engage with and manage their office space requirements, management has, with the full support of the Spear board of directors ("**Board**"), agreed to dispose of the Property. The Disposal creates portfolio rebalancing opportunities, with a clear and focussed investment bias towards industrial warehousing, logistics and retail assets within the Western Cape.
- 2.2. The form and function of commercial office space has changed. Large corporates have adopted a hybrid in-office and work-from-home model which has an impact on longer term office space requirements by some large corporate office users. The work-from-home narrative is not a one-size-fits-all solution, but changes in work force dynamics and the cost of losing human capital, has forced some businesses to reconsider and redesign how and where their workforce operates from. This has resulted in original space requirements needing to be augmented to cater for a post Covid-19 commercial office sector. Management believes that, given the augmentations that has taken place in the commercial office eco-system generally, and the general messaging from larger corporates, the Disposal gives effect to its portfolio rebalancing strategy, risk management strategy and capital recycling strategy.
- 2.3. Following a strategic review of Spear's total portfolio, management determined that both the value percentile and revenue percentile which the commercial office portfolio contributes to the overall portfolio are misaligned with its strategy and in need of mitigation and rebalancing as the office sector demand augmentations play out. Management has clearly communicated its focussed strategy of increasing portfolio exposure to industrial and retail assets within the Western Cape, as two key pillars of Spear's growth strategy. This strategy will continue to enhance the defensive characteristics of the underlying Spear portfolio.

2.4. Whilst Spear's retention of certain multi-let commercial office assets remains part of its overall strategy, post the implementation of the Disposal, the revenue contribution of the commercial office sector assets within the portfolio will be aligned to that of the revenue contribution of the industrial sector assets within the portfolio, being approximately 40% each, with the balance being from the retail sector assets within the portfolio. The net Disposal Consideration represents an 8.70% discount to Spear's latest reported book value of the Property, after deducting all transaction costs associated with the Disposal. This discount was however considered to be reasonable and acceptable to the Board, given the strategic benefits of the Disposal and in light of the following factors:

- the design and functional envelope that comprises the Property was built to meet the needs of a large-scale single tenant user;
- the upcoming expiry date of the lease with the current tenant (and the likelihood of renewal only being for a reduced portion of the lettable area of the Property);
- the cost of the resultant vacancy of a portion of the Property, pending the reletting thereof;
- the cost of refurbishment and augmentation of the office space, and the related allowances to be provided to the new tenant, upon reletting;
- the risk of negative rental reversions (lower risk);
- no agency fee's being incurred on the Disposal;
- the refinancing cost of the Property in light of rising interest rates; and
- the alternative investment opportunities available to Spear, which align with its investment and capital allocation strategy.

3. APPLICATION OF THE DISPOSAL CONSIDERATION

3.1. As at the Signature Date, the income yield on the Property is 9.57%, and the current debt on the Property is due to be refinanced in July 2023. The proposed refinance terms, received from Spear's funders, reflect the movement in the South African interest rates and do not compare favourably to the initial funding terms obtained at the original acquisition date of the Property, with the refinancing terms aligning closely to the disposal yield of the Property. Given the movement in South African interest rates and the probability of further interest rate hikes over the course of 2023, management will settle the debt attributable to the Property, to the value of R375 million and retain approximately R24 million in cash, to be utilised for selected capital allocation initiatives.

3.2. Spear anticipates that the fixed debt ratio of the group, as at 28 February 2023, will be approximately 62%, and that post implementation of the Disposal during the 2024 financial year, the fixed debt ratio will increase to between 72% and 77%. This will be in line with management's strategy of hedging between 65% and 75% of the group's debt at any given time, for periods of between 25 and 36 months.

3.3. The application of the Disposal Consideration will reduce Spear's loan to value ratio ("LTV") by approximately 500 bps and the forecasted Spear group LTV, following the implementation of the Disposal, will be between 34% and 36%. The anticipated date of the Disposal will be after the payment date of the final dividend for the 2023 financial year and post the implementation of the Island Urban Logistics Park acquisition. Post the implementation of the Disposal, Spear's LTV will be below managements strategic band of between 38% and 43%. Management will keep the LTV at below the strategic LTV band in the short term, until the rising interest rate cycle turns. Management is considering various investment opportunities at this point in time that would require future debt funding and would see movements in LTV on a forward-looking basis when

market opportunities are harnessed in line with its three-pronged capital allocation approach, which is to allocate capital to:

- new acquisitions, developments or redevelopments, which are higher than Spear's weighted average cost of capital and which are accretive to the underlying portfolio;
- Spear's ongoing share repurchase programs; and
- portfolio enhancements, which generate organic portfolio income growth.

4. CONDITION PRECEDENT

- 4.1. The Disposal is subject to the fulfilment of the condition precedent ("**Condition Precedent**") that the Disposal has (to the extent necessary) been unconditionally approved by the Competition Authorities in terms of the Competition Act, No. 89 of 1998, or conditionally approved on conditions which are acceptable to the parties.
- 4.2. The Condition Precedent must be fulfilled by not later than 120 days after the Signature Date, which date may be extended by the parties in writing.

5. EFFECTIVE DATE OF THE DISPOSAL

The effective date of the Disposal will be the date of registration of transfer of the Property into the name of the Purchaser (as defined below) ("**Transfer Date**"), which is anticipated as being during the month of September 2023.

6. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT

- 6.1. The counterparty to the Agreement is Capitec Bank Limited, a wholly owned subsidiary of Capitec Bank Holdings Limited ("**Purchaser**").
- 6.2. The Agreement contains representations and warranties by Spear in respect of the Rental Enterprise and the Property, in favour of the Purchaser, which are standard for a transaction of this nature.
- 6.3. Subject to such warranties, the Rental Enterprise and the Property are sold "*voetstoots*".

7. THE PROPERTY

Details of the Property are as follows:

Property Name and Address	Geographical Location	Sector	Gross Lettable Area (m²)	Weighted Average Net Rental / m²
Liberty Life Building, Century City Boulevard, Century City	Century City, Cape Town	Commercial Office	18,244	R200.15

Details regarding the Property, as at the Signature Date, are set out below:

Disposal Yield Attributable to Shareholders	Weighted Average Escalation	Weighted Average Lease Duration (years)	Vacancy % by Gross Lettable Area
9.57%	7.00%	2.33	8.93%

Notes:

- a) In addition to the Disposal Consideration, the costs associated with the Disposal are estimated at R1 million. No agents' commission is payable in respect of the Disposal.
- b) The Disposal Consideration payable in respect of the Rental Enterprise (which includes the Property), is considered to be its fair market value, as determined by the directors of Spear. The directors of Spear are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No. 47 of 2000.

8. FINANCIAL INFORMATION

- 8.1. As at 31 August 2022, being the date of the last published unaudited consolidated interim financial statement of Spear for the six month period ended 31 August 2022, the value of the net assets attributable to the Rental Enterprise, was R437,000,000.
- 8.2. The profit after tax attributable to the Rental Enterprise for the six month period ended 31 August 2022, was R12,049,217.24, based on the last published unaudited consolidated interim financial statement of Spear for the six month period ended 31 August 2022, which were prepared in terms of IFRS.

9. CLASSIFICATION OF THE DISPOSAL

The Disposal Consideration represents more than 5% but less than 30% of Spear's market capitalisation as at the Signature Date and accordingly the Disposal constitutes a category 2 transaction in terms of the JSE Limited Listings Requirements.

Cape Town
13 February 2023

Sponsor
PSG Capital



Legal Adviser
CDH

