

Delta Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/005129/06)
JSE share code: DLT
ISIN: ZAE000194049
(Approved as a REIT by the JSE)
("Delta" or "the Company" or "the Group" or "the Fund")

SHORT-FORM ANNOUNCEMENT

AUDITED CONDENSED CONSOLIDATED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2023

SALIENT FEATURES

- * Disposal of 7 properties for R208.9 million (net of selling costs)
- * Total repayment of debt of R352.9 million (2022: R285.4 million)
- * Rental collections 101.0% (2022: 102.7%)
- * B-BBEE Level 1 (2022: Level 1)
- * Weighted average lease expiry of 17.6 months (2022: 15.9 months)

THE YEAR IN REVIEW

The year has seen significant geopolitical and economic headwinds. The war in Ukraine has exerted upward pressure on energy and food prices worldwide spurring global inflation and abruptly interrupting an already lacklustre post-COVID financial recovery. Global growth forecasts continue to revert downward, more so for emerging markets.

Continued loadshedding, high cost of energy, rising costs coupled with low economic growth, illiquid financial markets, and higher interest rates will continue to put the Fund under pressure. This environment heightens the need to accelerate disposals.

The Group therefore continues to focus on achieving its strategic objectives. Portfolio optimisation through disposals is a key strategic focus to address the reduction of debt and the concomitant reduction of SA REIT loan to value ("LTV"). We successfully disposed of seven assets with a combined GLA of 47 025m² for a cumulative amount of R208.9 million (net of selling costs). After the reporting date we have transferred an additional asset of 14 188m² for a purchase consideration of R42.0 million (net of commission) and received a positive vote from shareholders to dispose of Capital Towers for R57.0 million. Sale agreements for a further five properties were concluded to the value of R71.8 million.

We are delighted to have achieved an average collection rate of 101.0% in a period that has proven challenging for tenants in these difficult economic circumstances.

We thank the Board for its support and our teams for their dedication and commitment.

FINANCIAL RESULTS

	Audited Year ended 28 February 2023	Audited Year ended 28 February 2022	% change
Rental income (R'000)	1 229 121	1 388 704	(11.49%)
Headline earnings per share (cents)	14.75	39.74	(62.88%)
Loss per share (cents)	(101.97)	(20.30)	402.32%

SA REIT funds from operations per share decreased from 36.91 cents per share to 11.12 cents per share. Rental income decreased by R159.6 million from R1.39 billion to R1.23 billion, largely driven by a decline in contractual rental income due to rental reversions mainly relating to the rebasing of a number of government-tenanted properties to market-related rentals.

Property operating expenses (excluding bad debt provisions included in the prior year and now separately disclosed under ECL's) increased by 1.0% from R571.0 million to R482.9 million. The main contributor to property operating expenses relate to utility costs, which increased by R10.0 million from R324.5 million to R334.5 million.

In addition, bad debts written off and provided for reduced by R14.2 million from R170.1 million to R97.1 million.

Administrative costs increased by 11.6%. This is largely due to the increased costs resulting from staff costs due to the filling of vacancies and increases, marketing expenses, IT expenses and travel expenses.

Over the reporting period, the local currency has deteriorated from R15.55 per USD to R18.60 per USD. This resulted in a foreign exchange gain of R15.8 million which was however offset by the decrease in the share price of GRIT by 15 USD cents, as reflected in the fair value adjustment of R35.5million.

Finance costs are 11.3% higher than the prior financial year; the Fund felt the full impact of increasing interest rates. The prime rate increased by 4.25% since the beginning of the financial year, which had a similar impact on the JIBAR rate. The interest rate increase is somewhat offset by the reduction in the overall level of debt due to capital repayments from disposal proceeds and mandatory capital payments. The overall repayment of debt was R352.9 million.

PROPERTY PORTFOLIO

At the end of the year, Delta's property portfolio consisted of 92 properties with a total investment value of R6.9 billion and a gross lettable area of 857 506m². In line with the Company's policy, the portfolio is independently valued on an annual basis.

The segmental and geographic breakdown of the portfolio (per tenant) at the reporting date was as follows:

Geographic profile by GLA

Province	% of revenue
Gauteng	45.3
KZN	28.8
Free State	4.2
Limpopo	7.4
North West	0.7
Western Cape	7.0
Mpumalanga	4.5
Eastern Cape	0.3
Northern Cape	1.8

Geographic profile by revenue

Province	% of GLA
Gauteng	41.0
KZN	32.1
Free State	7.5
Limpopo	5.0
North West	0.7
Western Cape	4.2
Mpumalanga	3.8
Eastern Cape	2.2
Northern Cape	3.5

MAJOR CAPITAL PROJECTS

Capital expenditure continues to be a strategic objective of the Group. During the year, R79.0 million (28 February 2022: R112.8 million including accrued capex) was spent on capital projects. This was funded from operating cash apart from R11.3 million, which is funded by a Nedbank facility specifically earmarked for the capital project at Poyntons in Pretoria.

LETTING

Delta renewed 81 leases totalling 194 545m² of which the majority relate to the National Department of Public Works and Infrastructure (“DPWI”) followed by state-owned entities and private commercial and retail tenants. Of the number of leases signed, 45.7% had a tenure of 12 months, 11.1% had a tenure between 12 and 36 months and 43.2% had a tenure greater than 36 months. We are in advanced negotiations with DPWI to renew the leases that expired at the end of February 2023 for periods in excess of 12 months.

A total GLA of 13 312m², comprising of 137 new leases, were concluded. The majority of new leases were entered into with private commercial tenants followed by state-owned entities.

Vacancies have increased during the year from 31.3% as at 28 February 2022 to 32.9% at year end.

Disposals during the current year reduced vacancies by 29 143m², whilst new lettings reduced vacancies by a further 13 312m². There was however a negative result in overall vacancies due to lease terminations.

The weighted average rental across the portfolio decreased to R104.05/m² from R107.00/m² in the prior financial year due to reversions which were marginally offset by contractual escalations.

FUNDING

The extension of the Group’s debt facilities continues to be top of mind and a priority. Continuous engagement with our funders allows us to cultivate a working relationship and improve pricing of our debt portfolio. After year-end, Nedbank agreed to reduce the margin on their facility to 3.0% from 3.5%. The facilities with Standard Bank mature at the end of November 2024. The Investec facilities are in the process of being finalised with one facility extended for 18 months and the other for 24 months.

The increase in interest rates has significantly impacted the Group’s weighted average cost of funding which increased from 7.4% as at 28 February 2022 to 8.8% as at 28 February 2023. This has negatively impacted the Group’s interest cover ratio (“ICR”), which has reduced from 1.9 times as of 28 February 2022 to 1.4 times. The impact of the increased finance costs was partially offset by the continuing amortisation of debt, the proceeds from disposals and a positive impact from the interest rate swaps. Finance costs were R457.9 million for the year compared to R411.5 million in the prior year.

The LTV has increased from 57.0% as at 28 February 2022 to 61.4%, mainly as a function of the reduction in fair value of the portfolio by R833.6 million. This is expected to improve as the disposal programme continues to progress.

DIVIDEND

Delta's SA REIT Funds from operations per share amount to 11.12 cents for the year ended 28 February 2023 (28 February 2022: 36.91 cents per share). The reduction is mainly attributable to the reduced revenue following the reversions coupled with the significant increase in interest rates. In performing the Solvency and Liquidity Test conducted in terms of section 46 of the Companies Act, which takes into consideration the working capital cash flow forecast, expected working capital requirements, capital expenditure requirements and contracted tenant installations relating to historic lease renewals, the Board resolved not to declare a dividend for the year ended 28 February 2023 (28 February 2022: Nil).

OUR STRATEGIC PRIORITIES

To address our liquidity and asset portfolio, ensuring an optimum gearing level, and covenants in line with agreed ratios, we have spent a lot of effort analysing the portfolio, identifying those assets that are more of a cash drain and have a negative ICR. Further disposals have therefore been earmarked.

Our strategic priorities include:

- Asset disposals;
- Reduction of debt;
- Reduction of vacancies; and
- Satisfy covenant requirements.

The strategy is to have targeted disposals of properties with negative ICR's and those that are in regions we have previously highlighted as areas we wish to exit. These earmarked properties will be sold, and the net proceeds used to reduce the debt exposure of the Fund.

Delta Property Fund has widened its pool of potential buyers from the traditional purchasers to others who might have a different use for the assets.

There is a targeted time frame of a 24 months in which to align our LTV and ICR to covenant levels. Within this time frame the portfolio should be right sized, and the Fund should be in a position to secure more capital and diversify their exposure.

AUDIT REPORT

The auditors have issued an unqualified audit opinion on the audited financial results, which includes an emphasis of matter in respect of a material uncertainty related to going concern which was raised by the auditors. The auditors' opinion has not been modified in respect of this matter. The auditors' opinion, containing key audit matters, together with the annual financial statements, is available for inspection at Delta's registered office during normal business hours and on the following weblink <https://www.deltafund.co.za/financials>.

SHORT FORM ANNOUNCEMENT

The contents of this short-form announcement are the responsibility of the board of directors of Delta. This short-form announcement is a condensed version of the full announcement in respect of the audited annual Group results for the year ended 28 February 2023 and does not contain full or complete details of the financial results.

Any investment decisions made by investors and/or shareholders should be based on consideration of the full announcement as a whole and shareholders are encouraged to review the full announcement, which is available on the JSE website at <https://senspdf.jse.co.za/documents/2023/jse/isse/DLT/ye2023.pdf> and can be found on the Group's website <https://www.deltafund.co.za/financials/>.

The full announcement is available for inspection at Delta's registered office, during normal business hours, at no charge and any requests to the Company Secretary for copies will be dealt with by referring the requester to the appropriate link on the Company's public website under the Investor Relations tab. The information contained in this short-form announcement has been extracted from the audited annual financial statements and has not been reviewed or reported on by Delta's auditors.

By order of the Board

P Langeni
(Chairman)

B Masinga
(Interim CEO)

12 June 2023

Date of release: 13 June 2023

Directors: P Langeni~ (Chairman), B Masinga (Interim CEO)*, M de Lange* (CFO), DN Motau^, MJN Njeke#, P Stock^, MCR Rampheri , S Zilwa^

*Executive, ^Independent non-executive, ~Non-executive, #Lead independent director

Registered office: Silver Stream Office Park, 10 Muswell Road South, Bryanston.
(PostNet Suite 210, Private Bag X21,
Bryanston, 2021)

Transfer secretaries: Computershare Investor Services Proprietary Limited

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

<http://www.deltafund.co.za>