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**")

VOLUNTARY OPERATIONAL AND FINANCIAL UPDATE FOR THE FIRST QUARTER, ENDING 31 MAY 2023, OF THE 2024 FINANCIAL YEAR

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1. INTRODUCTION

Spear is pleased to provide a high-level operational and financial update for the three months ending 31 May 2023 ("**Q1**") of the financial year ending 29 February 2024 ("**FY24**").

As the only regionally focussed REIT listed on the JSE, Spear continues to benefit from owning high quality assets solely in the Western Cape. The core portfolio has traded consistently through the first quarter of FY24, largely in line with management's expectations. A key focus area for management has been to aggressively reduce the portfolio vacancy rate, with a distinct focus on materially reducing office portfolio vacancies and to execute its continued cost containment strategy.

By and large the first quarter has seen improvements across the operating business, with a reduction in portfolio vacancies by 1.02% from 7.82% (32 034 m^2) in FY23 to 6.80% (28 995 m^2) in Q1 FY24. The key drivers behind this contraction have been the successful execution of Spear's letting and renewal strategy together with an uptick in demand for office space across Spear's commercial portfolio and continued demand for space in Spear's multi let industrial parks.

FY24 remains embryonic, however, management is confident that the positive inroads made into the portfolio vacancy rates and the resultant improved revenue generation, bodes well for Spear throughout FY24. Furthermore, portfolio wide asset management initiatives are yielding strategy aligned outcomes, as positive rental reversion milestones are met and improved average in force escalation rates are maintained. Spear's portfolio rental reversion rate for Q1 FY24 was +4.17% (FY23: +3.69%) and the average portfolio in force escalation rate of 7.40% (FY23: 7.40%).

Trading conditions continue to be extremely tough, despite the Western Cape's appeal and performance and it therefore remains imperative that management continues to successfully implement its active asset management and hands-on property management strategies. During Q1 FY24, Spear's renewal profile has seen a proactive decline as renewals are concluded timeously and, in some instances, well ahead of the expiry dates. Management is confident this momentum will be sustained throughout FY24.

Despite Spear's regional focus, it remains exposed to the South African macro-economic environment that has been one of volatility, low growth and sustained inflationary pressures. Cost creep and rising interest rates have been challenges, which management has tackled head on to mitigate the impact thereof, where possible, on the financial performance of Spear in FY24.

The Western Cape provincial and municipal authorities continue to deliver on their commitment to improve and invest in infrastructure in the region, as population growth numbers consistently tick upwards due to semigration to the Western Cape. Spear's Western Cape specialisation has provided a level of insulation from the real estate headwinds being experienced in other parts of South Africa. Management is confident that this specialisation will continue to contribute to improved core portfolio metrics and the ongoing financial and operational health of Spear, during FY24. Spear's high-quality portfolio remains defensive in nature, positioning the Company to take advantage of growth opportunities in the Western Cape.

Spear's balance sheet and income statement remain healthy, as receivables are reducing in line with management's forecast, despite the economic headwinds being experienced in South Africa. Cash collections for Q1 remain consistent, with sustainable cashflows across the portfolio, which management believes will be maintained throughout FY24.

2. OPERATIONAL UPDATE FOR THE THREE MONTHS ENDING 31 MAY 2023

Sectoral Update:

Industrial:

Spear's industrial portfolio has maintained its robust performance during Q1 FY24, with consistent demand for industrial rental opportunities. A key differentiator in the attractiveness of Spear's multi-let industrial parks, has been the availability of electricity supply during certain stages of loadshedding when other metro's are without electricity, which is achieved through pro-active curtailment agreements with the City of Cape Town.

Operational metrics within the industrial portfolio have gone from strength to strength with rental reversions printing positive 10% for Q1 and in force average escalations being the highest of all sub-sectors of the Spear portfolio, at 7.63%. Spear's industrial portfolio vacancies have declined from a vacancy rate of 2.23% of total portfolio GLA in FY23 to 1.50% of total portfolio GLA in Q1 FY24.

Spear's industrial portfolio comprises multi-let industrial, urban logistics, warehousing, manufacturing and logistics assets in sought after locations within the Cape Metropole, at rental rates that remain attractive across the board for small, medium and large enterprises. Per the disclosure schedules below both letting and renewal activity during Q1 have been in line with management's expectations.

Convenience Retail:

The Q1 performance of Spear's convenience retail portfolio has been satisfactory, despite the growing pressure facing consumers, as living costs creep upwards and high interest rates impact disposable income availability. Spear has diligently stuck to its strategy of only investing into the convenience retail sub-sector, which has shown more resilience in both the recent bear and bull markets. Spear's retail assets have performed consistently and maintained their historically high occupancy rates of 99.47% during Q1, generating stable cashflows despite a marginal negative rental reversion. Defensively positioned, in a market where tenant credit risk may be more prevalent, 41% of Spear's retail portfolio by GLA is occupied by national tenants on long-dated leases with excellent payment records.

Spear's retail portfolio comprises of convenience and destination retail assets, located in prime locations, servicing the full spectrum of the living standards measure scale.

Commercial:

Spear's commercial portfolio has started to show early signs of vacancy contraction, which will benefit Spear from Q2 onwards. The return to office momentum has been maintained, but so has the stickiness of the hybrid work model. The increased letting activity in certain parts of the commercial portfolio has been encouraging, with inroads being made into office vacancies at No. 2 Long Street, Cape Town, No. 1 Waterhouse, Century City, Bloemhof Building Tygervalley and The Upper Eastside Mixed Use Precinct in Salt River. The positive impact that the local and international BPO sector has had on general commercial office vacancy contraction in the greater Cape Metropole, cannot be understated. All of Spear's commercial assets are fitted with back-up power generation capacity, have generous parking ratios and attractive lease terms, and remain well placed to benefit from improved letting activity. The letting of a further 2 400 m^2 of office space, is at a very advance stage of negotiations, which should meaningfully contribute to further decreases in portfolio vacancy rates during FY24.

Spear's commercial portfolio remains well positioned to benefit from the return to office momentum as small, medium and larger scale users start to return to the office leasing market. On a per property basis, improved enquiry metrics have been evident as a result of focussed and strategic marketing initiatives.

	Industrial	Commercial	Retail	Development Land	Total Q1	FY23 Q1	FY23 Total
Number of properties	9	13	6	-	28	31	28
Value of properties (R'000)	1,508,542	2,155,927	707,842	51,002	4,423,313	4,474,684	4,215,939
Value %	34%	49%	16%	1%	100%		100%
Property revenue excl smoothing (R'000)	44,731	69,502	23,961	56	138,250	143,209	573,763.69
Revenue %	32.28%	50.16%	17.29%	0.04%	100%		100%
Gross lettable area m²	245,714	131,923	48,951	-	426,588	445,559	409,868.48
Gross lettable area %	58%	31%	11%	0%	100%		100%
Vacant area m²	6,409	20,337	2,249	-	28,995	27,462	32,034
Vacancy per sector %	2.61%	15.42%	4.59%	-	-	-	-
Vacancy on total GLA %	1.50%	4.77%	0.53%	-	6.80%	6.16%	7.82%
Reversion %	10.73%	4.73%	-5.57%	-	4.17%	-5.79%	3.69%
Weighted average in-force escalation %	7.63%	7.43%	7.17%	-	7.40	6.54	7.40
Weighted average lease expiry (Months)	23.59	29.02	28.12		27.25	25.73	26.93

		Group FY24 Q1	FY23 Total
Loan to value	%	39.06	36.30
Interest cover ratio	Times	2.52	2.51
Tangible net asset value	R	11.68	11.47
Total distributable income	R'000	43,152	188,417
SA REIT Cost to Income	%	43.79	43.45
SA REIT Administrative cost to income	%	6.40	6.50
Weighted average cost of debt	%	9.16	8.66
Weighted average cost of variable debt	%	9.89	9.05
Weighted average cost of fixed debt	%	8.18	8.18
Fixed debt ratio	%	47.53	53.61
Weighted Average expiry of debt	Months	26.39	30.14
Number of net shares in issue	’000	223,676	226,065

Letting activity

The table below includes only leases that were concluded and signed as at 31 May 2023.

	Expiries and Vacated GLA m²	Gross rental at expiry R'000	Average Gross expiry rental R/m²	Renewals / New Lets GLA m²	Gross New Rental R'000	Average Gross New Rental R/m²	Rental reversion
Commercial	7,034	1,006	143.08	7,596	1,138	149.85	4.73%
Industrial	10,420	563	53.99	11,589	693	59.79	10.73%
Retail	2,223	300	134.94	2,357	300	127.42	-5.57%
Total	**19,677**	**1,869**	**94.99**	**21,541**	**2,131**	**98.94**	**4.17%**

Notable post-Q1 progress has been made in vacancy contraction within the commercial office sub-sector which will add positive impetus to Q2 and the balance of FY24. Commentary on this is provided further down in this trading update.

The industrial sub-sector showed strong double digit positive rental reversions for Q1, as successful renewal terms were negotiated at improved rental rates given the prime locations of Spear’s assets, the availability of more consistent electricity supply and the holistically attractive nature of Spear’s rental terms.

The retail sub-sector was the only sub-sector that printed a negative reversion profile for Q1. This was as a result of two retail tenants at Sable Square coming off long term leases that escalated well above market. Management had budgeted for these two reversions in the formulation of the FY24 total portfolio revenue budget in December 2022.

Post 31 May 2023 the following leases have been concluded:

Vacant Space Let:
Offices – Upper East Side, Salt River = 1 700m^2
Offices – 28 Marine Drive, Paarden Eiland = 193m^2
Offices – Sable Square = 32m^2
Offices – Sable Square = 150m^2
Offices – Bloemhof Building, Tygervalley = 603m^2
Retail, Upper East Side, Salt River – 121m^2

Re-let / Pre-let:
Industrial, Mega Park, Bellville South – 4 220m^2 *
Industrial, Mega Park, Bellville South – 4 724m^2 *
Industrial, Mega Park, Bellville South – 5 986m^2 *
Industrial, Mega Park, Bellville South – 10 000m^2 **

*Ardagh Glass (formerly Consol Glass) will be vacating several units at Mega Park, Bellville South at the end of November 2023. Testament to the strong demand for Spear's multi-let industrial parks, 85% of the 22,047 m^2 of lettable area which Ardagh Glass will be surrendering has been pre-let at improved gross rentals which are 6% higher than Ardagh Glass' expiry rentals, with annual compounded rental escalations at an average rate of 7% and an improved weighted average lease expiry term from 5 months to 72 months. With strong interest in the remaining 15% of the space to be surrendered by Ardagh Glass, in respect of which leases are expected to be concluded imminently.

**Bounty Brands have increased their occupancy at Mega Park from 6 000 m^2 to 10 168 m^2 on a new 10 year lease from 1 December 2023.

FY24 lease renewal and letting activity momentum remains positive, as aggressive letting and marketing strategies yield results.

Acquisitions and disposals

Spear took transfer of The Island, Urban Logistics Park in Paarden Eiland on 9 May 2023, and all property and asset management controls have been put in place by Spear. Management looks forward to the contribution that this asset will make to the revenue generation and overall quality of the core portfolio.

Management did not conclude any new acquisitions during Q1, as acquisition yields have not been in line with its required rates of return coupled with the lack of availability of investment grade assets which meet Spear's strict investment criteria.

As previously announced on SENS, Spear disposed of the Liberty Life Building in Century City to Capitec Bank Limited, and all conditions precedent have been fulfilled following receipt of the unconditional approval of the transaction by the Competition Authorities, on 20 June 2023.

Management will redeploy the disposal proceeds in line with its capital allocation strategy, which, in the case of the Liberty Life disposal will be to settle the debt related to the property and to retain the balance of the disposal proceeds as liquidity availability for growth related initiatives.

ACQUISITIONS			
Property Name	**Purchase Consideration**	**Transfer Date**	**Initial Yield**
The Island Urban Logistics Park, Paarden Eiland	R185 million	09/05/2023	9.42%

DISPOSALS			
Property Name	**Disposal Consideration**	**Expected Transfer Date**	**Status**
Liberty Life, Century City	R400 million	Sept/Oct 2023	All conditions precedent fulfilled

3. FINANCIAL UPDATE

Group funding

The Liberty Life Building debt facility of R375 million was renewed on a short term basis until 31 January 2024 on the same terms, with no settlement fees. The debt will be settled on registration of transfer of the property to Capitec Bank Limited.

Management is actively monitoring the hedging environment to increase the group hedging profile in line with its strategy, either through market products or asset disposals. Current debt hedging products are expensive given the movement in the prime lending rate and the costs associated to these hedging products. Management is of the view that interest rates will in all likelihood start to taper off in Q4 FY24 and it will act on its hedging strategy as and when feasible options become available. The strategy remains to have a defensive hedging profile in place of between 65% to 75%, as market conditions permit, without having a negative impact on earnings.

Covenants

	Covenant	31 May 2023
Loan-to-value	50%	39.06%
Interest cover ratio	2 times	2.52 times

Cash Collections and availability

The Spear group's cash collections remain strong and post the FY23 final distribution payment, the group has R125 000 000 in available cash. The positive collections and increasing levels of available cash will support a continued dividend pay-out ratio of between 93% and 95%.

4. OUTLOOK

Macro-economic headwinds remain a major concern in South Africa as the low economic growth environment, unacceptably high unemployment rates, punitive impact of loadshedding and interest rate hikes consistently erode any prospect of material growth. The trading environment will remain challenging on all fronts, as consumers absorb the higher cost of living and operating and occupancy cost creep impact the net revenue base of tenants.

As the financial year is in its infancy, Spear's Q1 operating metrics set out in this update must be viewed in the context that the SARB may still increase interest rates by a further 25 to 50 bps, which would have an impact on the pending FY24 forecast, which management intends to provide to the market in due course. Management is steady at the wheel and is implementing multiple initiatives across the core portfolio to continue to deliver credible, predictable and consistent outcomes for all stakeholders.

Spear's guidance once provided will be based upon, informed by and impacted by the following:

- loadshedding stages are mostly limited to between stage 1 and stage 4 in City of Cape Town for the remainder of FY24;
- vacancies are reduced in line with management's forecast;
- lease renewals are concluded in line with management's forecast;
- no major tenant failures occur during the year;
- tenants continue to successfully absorb rising costs associated with utility charges, municipal rates and diesel charges;
- mitigation of further SA Reserve Bank interest rate hikes; and
- no civil unrest within Cape Town, the Western Cape or South Africa.

Any changes in the above assumptions may affect management's forecast for the year ending 29 February 2024.

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 Q1 FY24 financial information contained in this announcement has not been audited or reviewed by the external auditors of the Company.

Cape Town
5 July 2023

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