

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 OPERATIONAL UPDATE

Shareholders are advised that Delta is currently in a closed period in respect of its six-month financial results for the period 01 March 2023 to 31 August 2023 ("**interim period**"). The closed period will conclude on or about 21 November 2023, with the publication of the interim results.

This voluntary update provides an overview of the Company's operational activities during the interim period.

Highlights

- Month-on-month debt facilities totalling R3.1 billion were refinanced for a period of 12 months (Nedbank) and 24 months (Investec) respectively
- Revolving credit facility of R37.5 million concluded with Nedbank, to be used for working capital, capex and tenant installations
- 50bps lower interest rate negotiated with Nedbank
- R86.9 million of debt amortised during the interim period
- One asset with an aggregate GLA of 14 188m² disposed of for R44.0 million during the interim period
- Post the interim period, a total of 29 assets, with a total GLA of 277 349 m² were at various stages of negotiations:
 - Sale agreements for 5 assets, totalling R123.8 million are expected to be concluded within the next six months
 - Sale agreements for the balance of assets with a total value of R1.5 billion expected to be concluded within the next 12 months
- Awarded five tenders with a total GLA of 4 781 m² and 100 parking bays at CMH Building awarded over a period of 3 to 7 years
- 20 office leases with an aggregate GLA of 97 045 m² were renewed
- Strong rental collections with an average collection rate above 100% for the interim period

Debt refinancing

During the interim period, Delta successfully refinanced a total of R3.1 billion debt that was mainly on a month-on-month basis, including facilities with Nedbank and Investec were refinanced for a period of 12 months and 24 months respectively. In addition, Delta concluded a revolving credit facility of R37.5 million with Nedbank, which will be used for working capital, capital expenditure and tenant installations.

Debt reduction programme

Debt capital repayments amounted to R86.9 million for the interim period, of which R31.5 million related to the disposal of the Standard Bank Greyville asset, with the balance of R55.4 million from capital repayments.

In addition, Nedbank agreed to renegotiate its lending rate, resulting in a reduction of 50 basis points. The benefits of this lower interest rate only impacted the interim period for 3 months, with the full effects expected to flow through in the second half of the 2024 financial year and beyond.

Savings from lower interest payments have been allocated to further support debt reduction initiatives. High interest costs and prevailing high interest rates as a result of SARB repo rate increases remain a concern.

Portfolio optimisation

Delta's portfolio optimisation strategy, in part, includes the disposal of non-core assets which are largely vacant. Following implementation of the turn-around strategy during the half year ended 31 August 2022 ("HY23"), a total of 26 assets with an aggregate value of R887.8 million were earmarked for disposal. The assets earmarked for disposal are now 43 with an aggregate value of R2.2 billion.

During FY23, a total of 7 assets with a combined gross lettable area ("GLA") of 47 024 m² were disposed of for a total amount of R215.5 million.

During the interim period, a further asset with an aggregate GLA of 14 188 m² was sold and transferred for a total amount of R44.0 million.

Post 31 August 2023, a total of 29 assets, with a total GLA of 277 349 m² were at various stages of negotiations, with 5 assets, totalling R124.5 million, expected to transfer in the next six months. The remainder of the assets, with a total value of R1.5 billion, are expected to be concluded within the next 12 months.

The table below provides details of the properties that have already transferred or those that are expected to transfer in the next six months:

No	Property name	Disposal value (Rmillion)	GLA (m ²)
1	Standard Bank Greyville, Durban*	44.0	14 188
2	Nedbank Building, Bloemfontein	5.4	2 746
3	Enterprise Park, Johannesburg	39.0	11 860
4	Cape Road, Gqeberha #	33.0	5 135
5	Sediba, Fountain and VLU Buildings, Bloemfontein#	26.1	10 947
6	Die Meendt, Potchefstroom	21.0	3 705
	Total	168.5	48 581

*Transferred in March 2023 # under negotiations

Proceeds from these disposals will be allocated towards reducing debt levels. Disposing of these mostly vacant assets is further expected to make a positive contribution to the Group's overall vacancy rate as well as improve the Group's cost-to-income ratio on the back of lower operational costs associated with the vacant properties, such as security and municipal charges.

On transfer of all the properties earmarked for disposal, the loan-to-value ("LTV") ratio is expected to improve to a range of between 40% and 50%. Furthermore, interest charges are expected to reduce by approximately R200 million per annum, based on Delta's current cost of debt.

Portfolio vacancies have increased from 32.9% in FY23 to 33.9% in the interim period, mostly because of a 5 363 m² reduction in the CMH property GLA upon remeasurement. This vacancy rate is before considering some of the recently concluded leases elaborated on below.

Tenders awarded

Delta was awarded leases for office properties in respect of the following tenders during the interim period:

- IEC for 1 495m² at 13 Elliott Street, Kimberley for a period of 7 years;
- eThekweni Municipality for 2 000m² at Liberty Towers, Durban for a period of 3 years;
- Transnet for 100 parking bays at CMH Building, Durban for a period of 3 years;
- CCMA House for 1 086m² at Polokwane for 5 years; and
- NDA for 200m² at Du Toitspan, Kimberley for 3 years.

Lease renewals

Delta has been attending to lease enquiries in respect of In 2 Fruit Building, 101 De Korte and Capital Towers. In addition, a total of 97 045 m² were concluded representing 20 renewed leases which included:

- De Meendt, Potchefstroom: SAPS for 449m² and 2 722m² for a period 1 year;
- Hallmark Building, Pretoria: Home Affairs for 25 708m² for a period of 3 years;
- Poynton Building, Pretoria: Correctional Services for 35 208m² for a period of 3 years;
- Commission House, Pretoria: Department of Public Enterprises for 6 011m² for a period of 9 months;
- NPA, Cape Town: NPA for 10 552m² renewed for a period of 5 years;
- 56 Barrack Street, Cape Town: Home Affairs for 4 165m² initially renewed for a period of 1 year and a lease for 5 years has now been concluded; and
- SAPS-Ferreira Street, Nelspruit: SAPS for 4 637m² for a period of 5 years.

Most renewed leases have been concluded with the Department of Public Works and Infrastructure over an average term of between 8 and 60 months. Negotiations to extend leases with a tenure of less than 12-months to longer terms are underway.

A total of 23 retail leases with a GLA of 1 903m² over an average 3-year period were concluded. Most of these leases were in the Durban region.

Rental collections

Delta's relentless focus on rental collections continued to result in strong collections that have averaged above 100% per month during the interim period. This has resulted in a positive impact on cashflow and assisted in the reduction of arrears. Delta has a strong focus on cash management and as such, arrear rentals have been reducing over the years to approximately R130 million.

Capital expenditure ("capex")

Capex to retain existing tenants remains a key focal point for Delta. During the interim period, maintenance capex amounting to R21.9 million relating to tenant installations and upgrading of various equipment was incurred.

Strategy implementation

In the prior interim reporting period for the six months ended 31 August 2022, the Board of Directors approved a refined strategy focused on five pillars:

- Debt reduction through disposals of identified assets;
- Portfolio and capital structure optimisation;
- Improved leasing and renewals;
- Developing and retaining our people; and

- Delivering to our tenants.

Notwithstanding significant macro-economic challenges, including the highest interest rate in 14 years and low economic growth, Delta's turn-around strategy continued to gain traction during the interim period. Delta remains fairly active in the market and there are no indications of the likelihood of significant property write downs at this stage. Whilst Delta continues to report positive results, it however, remains cash constrained due to the debt reduction programme.

Sustainability and ESG

In FY23, Delta completed the first phase of its ESG framework, which included conducting an ESG peer benchmarking research to inform the next phase. Phase 2, which is completed, involved the collection of data and implementation of some energy efficient solutions.

During the interim period, the installation of LED lights and more environmentally friendly heating and cooling systems, including HVAC were undertaken.

Grit shares

Delta is in the process of moving its holding in Grit Real Estate Income Group from the Stock Exchange of Mauritius to the London Stock Exchange to facilitate the disposal of these shares, which remains a priority.

Delta has recently received a guarantee release letter from Investec, whereby Investec releases Delta from any rights, obligations and claims arising out of the property guarantee. The guarantee was previously disclosed in the FY23 financial statements as other financial liability of R3.3 million.

Litigation

With regards to potential litigation pertaining to the MPI PAM matter, an original claim of R400 million instituted in 2020 against Delta has been withdrawn and a new claim for R147 million has been instituted. Delta maintains that the claim is without legal merit. Arbitration in this regard continues.

The Orthotouch matter has been settled whilst Educor matter is in the process of being settled. Other legal matters as disclosed in Delta's integrated report remain unchanged.

Outlook

The office sector, and especially B-grade offices are expected to remain under pressure as a result of oversupply and highly competitive rentals. Whilst the sector is taking strain, Delta continues to position itself in a manner that will ensure its performance and various metrics are in line with industry benchmarks. To this end, the Company is continuing with renewing leases with its major tenants.

The Group will continue to implement various strategies to ensure tenancing of its vacant properties including working with property brokers and outside support.

Delta will remain nimble, and solution orientated in its engagement with tenants whilst prioritising the disposal of its non-core portfolio to buyers, including specialists in office-to-residential conversions.

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

Johannesburg

7 September 2023

Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank Limited