

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")



SPEAR
REIT LIMITED

VOLUNTARY OPERATIONAL AND FINANCIAL UPDATE FOR THE FINANCIAL YEAR ENDED 29 FEBRUARY 2024

1. INTRODUCTION

Spear is pleased to provide a high-level operational and financial update for the financial year ended 29 February 2024 ("FY24").

To date, Spear remains the only regionally focussed REIT listed on the JSE. Spear's sole focus on the Western Cape has proven to be a sound investment strategy, despite the generally negative economic and political climate in South Africa. Spear has stood out as a counter-cyclical real estate investment, with the majority of Spear's key performance metrics outpacing its diversified peers with national asset ownership investment strategies. Despite Spear's regional focus and active asset management approach to operating its business, market headwinds cannot be fully mitigated at all times. Spear's core portfolio has for the most part traded consistently through FY24, largely in line with management's expectations.

FY24 accomplished numerous key performance metrics set by management for the reporting period which should present positive momentum within the core portfolio in FY25 and beyond. Management are confident that major vacancy risk remains mitigated, average in-force escalation rates remain ahead of market benchmarks and the weighted average lease expiry profile reflects the diversified nature of the Spear portfolio. Portfolio occupancy rates remain within the mid-90 percentile, as the general leasing demand across the core portfolio remains strong and the successful conclusion of leases after the FY24 year-end further improving occupancy rates.

Portfolio wide asset management initiatives are yielding strategy aligned outcomes, as rental reversion metrics continue to move in the right direction. Spear's portfolio rental reversion rate for FY24 was -0.37% (HY24: 3.57% and FY23: -3.69%) and the average portfolio in-force escalation rate was 7.52% for FY24 (FY23: 7.40%).

The trading environment remains tough, despite the Western Cape's appeal and performance, and it therefore remains imperative that management continues to successfully implement its active, hands-on asset and property management strategies. Spear's lease renewal strategy has been successfully executed throughout FY24 as renewals were concluded timeously and, in some instances, well ahead of the expiry dates. Strong leasing and lease renewal momentum has been maintained in FY24, as more than 153 383 m² of Spear's portfolio gross lettable area ("GLA") was either renewed or relet during FY24, versus the 142 770 m² that was classified as portfolio GLA which would either reach expiry or become vacant during FY24.

Spear's business is not immune to the macroeconomic environment, that has been one of volatility, low growth and sustained inflationary pressures. Cost creep and higher-for-longer interest rates presented further challenges which had to be absorbed and, where possible, mitigated to defend the overall operating and financial performance of Spear for FY24. Spear's FY24 update must be viewed in the context that the SARB will likely maintain a higher-for-longer approach to interest rates, with any potential rate cuts only foreseeable towards the second half of 2024. Diesel cost recovery from tenants has remained consistent, with 96% of the cost of diesel supplied across the portfolio to operate back-up power generators being successfully recovered.

The Western Cape provincial and municipal authorities continue to deliver on their commitment to improve and invest in infrastructure in the province, as population growth numbers consistently tick upwards due to semigration to the Western Cape. Spear's Western Cape hands-on approach has continued 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.

The expansion of two major PV solar roof projects were concluded during FY24, which added 2 MW of additional solar capacity to the Spear portfolio. The roof rental structure of the expansion projects will enhance non-GLA revenue, with both projects being concluded on 25-year roof rental agreements which include annual escalation rates. Currently three wheeling projects are undergoing feasibility studies to ascertain the suitability and viability of implementation. Furthermore, three new solar PV installations are in the planning phase, in a bid to add between 9 and 10 MW of total installed capacity over the next 12 to 18 months, generating 25% of Spear's total portfolio wide electricity demand.

Spear's balance sheet and income statement remain robust and well managed and Spear's fixed debt ratio has remained at just under 50% (the strategic target is for 65% to 75% of Spear's debt to be fixed for a period of 24 to 36 months) and overall group loan to value ("LTV") was at 31.60% as at FY24 year-end.

Cash collections for FY24 remained consistent at 98.43%, with sustainable cashflows across the portfolio, which management believes will be maintained into FY25. Receivables remain under control, despite the economic headwinds being experienced in South Africa.

2. OPERATIONAL UPDATE FOR THE THREE MONTHS ENDED 29 FEBRUARY 2024

Sectoral Update:

Industrial:

Spear's industrial portfolio remained a key performer within the core portfolio, as well-located assets which are not materially impacted by the severity of loadshedding, remain in high demand. The industrial portfolio has maintained its robust performance during FY24, with consistent demand for industrial rental opportunities. Spear's load curtailment initiatives in certain multi-let industrial parks continue to offer users consistent energy supply during certain stages of loadshedding, when other metros are without electricity.

Operational metrics within the industrial portfolio have remained consistent and in line with management's expectations. Rental reversions for FY24 continued to be positive at 6.12% and in-force average escalations were the highest of all sub-sectors of the Spear portfolio, at 7.72%. Spear's industrial portfolio vacancies remain low at 1.76% as at FY24 year-end.

Ongoing bulk infrastructure works continue on site at Spear's 30 000 m² GTX Industrial Park in George, with phase 1 anticipated to be completed during April 2024. Letting enquires remain strong since the launch of the development, resulting in the acceleration of top structure site development plans across the eight respective sites.

Spear's defensive 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. Spear's industrial portfolio makes up 59% of total portfolio GLA, further underpinning the high-quality nature and attractiveness of the regionally focussed core portfolio.

Convenience Retail:

Spear's retail assets have continued to perform consistently at high occupancy rates of 95.54% during FY24, generating consistent cashflows and a positive rental reversion of 11.03%, with in-force average escalations of 7.47% as at FY24 year-end. Spear's retail portfolio remains defensively positioned, in both location and tenant mix composition in a trading environment where tenant credit risk may be more prevalent, with 41% of Spear's retail portfolio by GLA being occupied by national tenants on long-dated leases with excellent payment records. Pick n Pay leases approximately 0.93% of the total Spear portfolio GLA and makes up only 1.32% of the aggregate contractual rental income of Spear.

Spear's retail portfolio is located in high-growth nodes servicing a wide range of LSM groups. The diverse mix and product offering of the retail portfolio has resulted in numerous brand additions by national retailers.

Commercial Offices:

During FY24 slower than anticipated progress was made in vacancy contraction within the office sub-sector, however, letting momentum has improved since year-end. Despite this, occupancy levels were at 84.37% end FY24. The total office areas vacated or expired at the end of February 2024 was 36 096 m² of which 37 602 m² has already been relet (effective immediately) at -4.67% gross rental reversion. Management is confident that

the higher than normal Spear office vacancy percentage is transitory in nature and will not be maintained in the short to medium term given the shortage of supply in quality occupier spaces in Cape Town.

Letting activity within the commercial office portfolio has remained consistent and encouraging, with additional inroads being made into office vacancies at No. 2 Long Street, Northgate Corporate Office Park and Sable Square. No. 1 Waterhouse (Century City), Bloemhof (Tygervalley), Omnipark (Tygervalley) and Liberty Life (Century City) are all fully let.

Spear's commercial office assets are all located in sought after locations, fitted with sufficient back-up power generation capacity, have generous parking ratios and are positioned to the market with attractive lease terms which have been key drivers to the letting activity year to date.

Outside of just the large occupier demand, Spear's commercial office portfolio remains well positioned to benefit from the return to office momentum as small and medium scale occupiers return to the office leasing market as notable leasing momentum at No. 2 Long Street and Sable Square started to manifest.

The table below summarises the operating metrics of Spear's portfolio, by sector:

	Industrial	Commercial Office	Retail	Development Land	FY24 Total	FY23 Total
Number of properties	9	14	6		29	28
Value of properties (R'000)	1,623,200	2,213,460	734,314	56,421	4,628,065	4,215,939
Value %	35%	48%	16%	1%	100%	100%
Property revenue excl smoothing (R'000)	218,538	292,103	96,592	74	608,141	573,764
Revenue %	35.94%	48.03%	15.88%	0.01%	100%	100%
GLA m ²	252,941	126,235	47,366	-	426,542	409,868
GLA %	59%	30%	11%	0%	100%	
Vacant area m ²	7,503	19,736	2,113	-	29,351	32,034
Vacancy per sector %	2.97%	15.63%	4.46%	-	-	-
Vacancy on total GLA %	1.76%	4.63%	0.50%	-	6.88%	7.82%
Reversion % YTD	6.12%	-4.67%	11.03%	-	-0.37%	-3.69%
Weighted average in-force escalation %	7.72%	7.43%	7.47%	-	7.52%	7.40%
Weighted average lease expiry (months)	23.82	28.58	23.51	-	25.94	26.93

Letting activity

The table below includes only leases that were concluded and signed during the FY24.

	Expiries and Vacated GLA m ²	Gross rental at expiry R'000	Average Gross expiry rental R/m ²	Renewals / New Lets GLA m ²	Gross New Rental R'000	Average Gross New Rental R/m ²	Rental reversion
Commercial Offices	36,096	5,561	154.05	37,602	5,522	146.85	-4.67%
Industrial	92,278	5,113	55.40	103,554	6,088	58.80	6.12%
Retail	14,396	1,458	101.25	12,227	1,374	112.41	11.03%
Total	142,770	12,131	84.97	153,383	12,985	84.66	-0.37%

As communicated during the various updates provided by management during FY24, consistently improving reversionary metrics were printed on a core portfolio level as a result of stronger letting activity and improved leasing terms being concluded with tenants, despite the impact of the negative rent reversion print in the commercial office sub-sector.

The commercial office sub-sector has shown consistent improvements resulting in the negative rental reversion rate moving from -7.87% at HY24 to -4.67% for FY24.

The industrial sub-sector continued to produce consistent positive rental reversion of 6.12%, 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 showed a marked recovery in rental reversion profiles from HY24 with a strong positive rental reversion rate of 11.03%. Trading across the retail portfolio has yet again been strong for the quarter and an overall improvement in the rental rate per square meter achieved on new leases has boosted the reversionary profile from a HY24 negative rate to a positive rental reversion rate for FY24.

Post 29 February 2024 the following leases have been concluded to date:

Property	Sector	Type	Size m ²
Blackheath Park	Industrial	Vacate and relet	1,354
Blackheath Park	Industrial	Vacate and relet	187
2 Long Street	Office	Vacant	1,217
Sable Square	Office	Vacant	1,095
Sable Square	Retail	Vacant	100
Northgate	Office	Vacate and relet	114
Mega Park	Industrial	Vacant	482
Omnipark	Retail	Vacant	93
Omnipark	Office	Vacant	273
Upper Eastside	Retail	Vacant	126
Viking Park	Office	Vacant	106
Viking Park	Office	Vacant	96
Viking Park	Office	Vacant	60
No1 Waterhouse	Office	Vacate and relet	245
Mega Park	Industrial	Vacant	1,900

FY25 lease renewal and letting activity momentum remains positive, as aggressive letting and marketing strategies yield results. Taking the above letting activity into account together with other portfolio movements, the vacancy as at 28 March 2024 has decreased to 6.70% from 6.88% at FY24 year-end.

3. FINANCIAL UPDATE

The table below provides a financial snapshot of Spear, as at FY24 year-end:

		FY24 Total	FY23 Total
Loan to value	%	31.60	36.30
Interest cover ratio	Times	2.28	2.51
Tangible net asset value per share	R	11.79	11.47
Total distributable income	R'000	200,805	188,417
SA REIT Cost to Income	%	43.69	43.45
SA REIT Administrative cost to income	%	6.00	6.50
Weighted average cost of debt	%	9.48	8.66
Weighted average cost of variable debt	%	10.16	9.05
Weighted average cost of fixed debt	%	8.55	8.18
Fixed debt ratio	%	47.24	53.61
Weighted Average expiry of debt	Months	24.67	30.14
Number of net shares in issue	'000	260,086	226,065

Group funding

Management continues to actively monitor the hedging environment, to increase the group hedging profile in line with its strategy, either through market products or asset disposals. Debt hedging products have become less expensive as the interest rate cycle shows signs of tapering but remains relative on par to variable debt. Management concluded fixes to the value of R194 million at a base rate of 7.80% for 3 years during Q3 FY24 when there was temporary reprice in fixed rates. Management is of the view that SWAP rates will in all likelihood start to taper off in mid FY25 and will allow it to 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	29 February 2024
Loan-to-value (post capital raise)	50%	31.60%
Interest cover ratio	2 times	2.28 times

Spear's LTV is below the LTV sensitivity band as disclosed in the HY24 interim results presentation, mostly due to the capital raised via private placement in February 2024. Spear's internal strategy is to operate within a 38% to 43% LTV ratio at varying times within property cycles. Currently the Spear LTV is below the internal LTV band. The disposal of the Liberty Life Building in Century City will further reduce Spear's LTV by +6%, dropping the group LTV ratio to between 25% and 26%.

Cash Collections and availability

The Spear group's cash collections remain strong, at just over 98% for FY24 and the Spear group has R180 000 000 in available liquidity. The positive collections and increasing levels of available cash will support a proposed final dividend pay-out ratio of 96%.

4. OUTLOOK

Despite the Western Cape's commendable performance across various sectors, South Africa still faces significant macroeconomic challenges. To tackle the national unemployment rate, both private and public sectors must prioritise job creation and investment to stimulate GDP growth. Issues within the national logistics ecosystem, particularly in ports and rail networks, hinder growth and contribute to inflation. Nevertheless, progress is evident, especially in the Western Cape, where efforts to mitigate loadshedding effects and improve the Cape Metro rail network are underway. The province has notably reduced its unemployment rate to within a small percentage of dropping below 20% and leads in job growth compared to other provinces in South Africa.

The expansion of residential areas and mixed-use precincts has increased demand for space solutions across Spear's portfolio and is poised to drive economic investment and development in the Western Cape as more money is deployed into the local economy creating a cascading effect across the real estate landscape. This trend underscores the province's appeal as an investment opportunity, supported by reliable municipal infrastructure.

Despite these opportunities, the trading environment will remain challenging, with consumers grappling with increased living costs. The prospect of an interest rate tapering cycle in the second half of 2024 offers optimism for both the South African economy and the real estate sector. Lower financing costs, combined with stronger portfolio escalations, would have the effect of enhanced profitability for Spear.

FY25 will require even more intensive asset and property management initiatives to mitigate macroeconomic pressures and lack of real growth pressures. Spear will maintain its highly strategic and focused approach to cost controls, asset management and leasing management to create and unlock value in the current suppressed trading environment. We are cautiously optimistic that FY25 will be another year that delivers mission statement aligned outcomes for Spear's stakeholders and we remain confident that Spear is well positioned to take advantage of growth opportunities as they present themselves over the course of the year.

As announced on SENS on 2 April 2024, Spear has entered into agreements to acquire a Western Cape property portfolio from Emira Property Fund Limited ("**Acquisition**") for R1,146 billion, and management will endeavour to finalise and implement the Acquisition as soon as possible. In addition to the execution of its operating strategy and ongoing hands-on management of the core Spear portfolio during FY25, management will work diligently on the incorporation and stabilisation of the new Western Cape property portfolio following the Acquisition.

5. CONFIRMATION OF FY24 GUIDANCE

Based on the improved overall operating metrics of the portfolio and given the information available to management at the date of this update, management maintains its guidance that the FY24 distributable income per share (“**DIPS**”) will be within a range of a 0.75% to 1,50% higher than the FY23 DIPS.

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.

Spear’s annual financial statements for FY24 are expected to be released on or about 22 May 2024. Shareholders are advised that Spear’s auditors have not yet finalised their audit of the FY24 financial information, on which this announcement is based, and that the information contained in this announcement has not been audited or reviewed by the external auditors of the Company.

Cape Town
3 April 2024

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