

Risk Management

The board adopted a risk management policy with the assistance of the audit and risk committee. The policy is applied by the executive committee in the daily operations of the group.

The policy is based on mitigating identified risks to the group to acceptable levels and in line with industry practices to ensure no transaction is entered into that is not in the ordinary course of business, as required by the JSE.

Risk management is an integral part of the group's strategic management and is essential to ensure quality growth in the net asset value of the group, which will translate into sustainable distribution growth.

The group employs a risk management framework to:

- identify risk factors which may have a material impact on the group's operations
- formulate a mitigating response for each area of impact
- monitor progress against mitigation targets
- review and revise identified risks on an ongoing basis.

The audit and risk committee oversees the risk management framework and has an ongoing responsibility to monitor the group's risk management processes as reported on by the executive committee.

The table below summarises the key risk factors identified and how these have been mitigated.

Risk factor	Areas of impact	Company response	Status
Tenant default	<ul style="list-style-type: none"> - Sustainability of revenue and distribution - Portfolio vacancies 	<ul style="list-style-type: none"> - Credit vetting process and preference for tenant offering strong lease covenant - Active client engagement and regular review of arrears 	<ul style="list-style-type: none"> - No significant post-listing bad debts - Total vacancies only 0.92% of GLA
Rapid increase in utility costs, especially property taxes and electricity	<ul style="list-style-type: none"> - Pressure on tenants for recovered utilities - Pressure on profitability for non-recovered costs - Additional financial impact on tenants 	<ul style="list-style-type: none"> - Investigate use of renewable energy sources - Investigate use of non-municipal water supply 	<ul style="list-style-type: none"> - Feasibilities in progress for well points at high water use buildings - 41% of lettable space comprises tenants fully recovering leases
Going concern risk	<ul style="list-style-type: none"> - Inability to settle creditors and funding obligations as they become due 	<ul style="list-style-type: none"> - Strong balance sheet with long dated leases in place to generate sustainable cash flows - Continuous management of overheads and improve project performance 	<ul style="list-style-type: none"> - Current LTV 33.09%, well below the 60% guideline
Macro-economic environment	<ul style="list-style-type: none"> - Access to capital - Interest rate risk - Tenant defaults and reduction in rental income 	<ul style="list-style-type: none"> - LTV target range of 40-45% and maintenance of adequate banking facilities - Hedging target of 60% - Focus on high-quality real estate in Western Cape 	<ul style="list-style-type: none"> - Current LTV 33.09%, below target range - 59% debt fixed - 61% of GLA to large listed national or international tenants

Risk factor	Areas of impact	Company response	Status
Deterioration in property values or specific areas	<ul style="list-style-type: none"> – Fair value of investment property – Ability to attract new tenants 	<ul style="list-style-type: none"> – Focus on A-grade property in prime nodes – Preference for tenants offering strong lease covenant 	<ul style="list-style-type: none"> – 61% of GLA to A grade tenants – 45% of leases expiry > 3 years
Retention of key staff	<ul style="list-style-type: none"> – Loss of key staff will impact on the ability to achieve the group's objectives 	<ul style="list-style-type: none"> – Implementation of long-term and short-term incentive schemes 	<ul style="list-style-type: none"> – Share scheme and bonus plan rolled out to all key staff – Board approval received for implementation of maiden staff share incentive programme
Gradual or sudden destruction of properties	<ul style="list-style-type: none"> – Buildings destroyed by acts of God – Properties not properly maintained and deteriorating over time 	<ul style="list-style-type: none"> – Ensure adequate insurance cover is maintained – Ensure properties are continuously maintained 	<ul style="list-style-type: none"> – Comprehensive commercial insurance in place. Full insurance replacement valuation performed in the year under review to ensure adequacy of cover – Property operational team employed and detailed maintenance schedule drafted
Property obsolescence	<ul style="list-style-type: none"> – Change in tenant needs or buildings becoming dated could result in impairment of key assets or significant costs to improve facilities 	<ul style="list-style-type: none"> – Increased focus on acquiring new properties with excellent quality and maintenance record – Prudently earmark dated properties for disposal – Effective recycling of capital 	<ul style="list-style-type: none"> – Our portfolio currently consists only of properties with excellent maintenance records
Compliance with laws and regulations	<ul style="list-style-type: none"> – Penalties, operational risk from non-compliance with legislation – Sanctions and risks associated with non-compliance with JSE regulations 	<ul style="list-style-type: none"> – Employment of suitably skilled and experienced staff and executive – Engage external specialists with appropriate skills – Adequate internal and external training 	<ul style="list-style-type: none"> – Executives and staff considered to be adequately qualified and experienced – Corporate advisors and auditors experienced in listed property companies – Employees regularly attend conferences and receive relevant training
Stakeholder risk (other than addressed above)	<ul style="list-style-type: none"> – Access to capital – Share price and liquidity – Market credibility 	<ul style="list-style-type: none"> – Regular meetings with major shareholders – Close interaction with corporate advisors (PSG Capital, auditors, CDH) 	<ul style="list-style-type: none"> – Company continues to receive strong support from current shareholders – Oversubscribed in post-period-end capital raise