05 NON-EXECUTIVE CHAIRMAN'S REPORT

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– Abubaker Varachhia

OUR GREATEST CHALLENGE YET

The year 2020 will be remembered as the year in which the world faced exceptional adversity when the worst pandemic in over a century brought communities, countries and economies to a standstill. When the World Health Organisation ("WHO") declared the Covid-19 outbreak a global pandemic on 11 March 2020, we were presented with many unknowns that lead to widespread economic and social disruption. Within a year of the WHO's declaration, approximately 120 million Covid-19 cases had been reported, with approximately 2.7 million people having succumbed to the virus.

In just a matter of weeks, businesses and governments experienced setbacks never experienced before, and the narrative on how to deal with the pandemic was changing daily. No level of experience in the modern era could prepare us for what we were about to face. Globally, governments imposed varying degrees of lockdown measures to contain the spread of the virus, leading to extreme market volatility and extraordinary market conditions. This resulted in many businesses having to close their doors and millions of people losing their livelihoods. This phenomenon exacerbated the already fragile socioeconomic challenges the world was facing, even more so in South Africa, exposing inequality, corruption, judicial challenges and many other deeply rooted issues in our society.

Prior to the Covid-19-induced challenges, the South African economy was already under pressure, with several years of disappointing growth, multiple recessionary periods, increasing unemployment, and a weak government fiscal position. The South African government's efforts put in place prior to Covid-19 to revive the economy had been dampened by the global shutdown, with the economic destruction that followed accelerating the economic downturn that we had come to experience, resulting in real GDP shrinking by 7% during 2020. Policy uncertainty and weak investor and consumer confidence added further pressure to our dilemma. Our already fragile country was thrust into an economic and humanitarian disaster.

TRUE CHARACTER SHINES THROUGH TIMES OF ADVERSITY

I am always amazed at how South Africans can come together during the most challenging of times. One of the outstanding abilities that we have as a country is a way of showing resilience during times of hardship and adversity – and once again this notion stood true at our darkest time. I have never witnessed such a committed collaborative effort in our country since the dawn of our democracy.

The South African government was quick to react by implementing measures to contain the spread of the virus, whilst working with the private sector to ensure longevity and continuity of our healthcare facilities and other institutions to withstand the expected increase in infections. The people of our country followed the strictest of lockdowns, giving up the many freedoms we share, and placed their households under financial duress to ensure the containment of the virus.

Furthermore, the South African Reserve Bank eased the burden for both businesses and individuals by reducing the repo rate by 300 basis points, with South African banks enabling payment holidays to many distressed clients. Several institutions and industry leaders worked closely with government to identify and facilitate channels that would enable financial support to businesses and households with the establishment of multiple relief funds and aid initiatives. Through these and many other initiatives, the collaborative efforts of the public and private sectors have seemingly defined government's economic recovery action plan, which aims to rebuild an inclusive economy focused predominantly on infrastructure investment to boost productivity and aid in the re-industrialisation of our country. We at Spear look forward to playing our role in rebuilding our economy.

The worst of times brings out the best in people, and over the past year our team at Spear showed great character through the toughest challenge our business has faced to date. I am thankful to them for their efforts and the integrity with which they fulfilled their roles during a time when each of them faced personal challenges, but managed to place the best interest of our stakeholders first. I am proud of the management team at our DoubleTree by Hilton property for being quick to raise funds and food donations, and utilise the state-of-the-art hotel kitchen to prepare and package meals for the most vulnerable members of our community. Being a Western Cape-focused property business, it is of utmost importance that the work we do uplifts, inspires, and creates meaningful impact to our neighbours and communities, and these actions embody the ethos and values we instil at Spear.

ADAPTING WITH STRATEGIC INTENT

The South African real estate sector was decimated by the onset of the pandemic. With the swift lockdown in March 2020 followed by an economic meltdown that had an adverse impact on business continuity and consumer confidence, the REIT sector collapsed by more than 40% during 2020. In my more than 30 years in the property industry I have never seen an event of this magnitude decimate the industry which I am so passionate about. With retailers under pressure and an excess supply of office space prior to Covid-19, the sustainability of property values was brought into question. REITs were placed under increasing pressure to reduce their loan-to-value ratios, resulting in an increase in assets held for sale across the market. Furthermore, some of our counterparts were forced to withhold dividend distributions, arguably investors' most important return metric in the REIT sector, to ensure their business continuity over the short to medium term.

When I wrote to our stakeholders in last year's integrated report, I was not able to quantify the precise impact the pandemic would have on the real estate sector and Spear's business. We were fortunate enough to have a robust balance sheet backed by high-quality assets that we believed would allow us to weather the storm. Our immediate response at the time was to ensure the safety of our employees, the implementation of sound financial and operational business continuity measures, and the financial viability, stability and security of the tenants occupying our properties.

Although the pandemic is still with us, we are in a much better position to understand the impact it has had thus far and better evaluate the outcome of the decisions made over the past year. As we were forced into lockdown, our executive team, under the guise of the board of directors, undertook a strategic review of our business and engaged on how best to manage our tenants whilst maintaining shareholder value. This included a potential loss provisioning and income rebasing under multiple scenarios for the expected impact of Covid-19. It was time to rethink the way in which we executed business as usual.

Against the backdrop of multiple unknowns, I am pleased to say that my board colleagues and I are immensely proud of our Spear team, all of whom were able to adapt swiftly to ensure our operational and financial resilience. Being a regionally-focused REIT played in our favour as we were able to preserve cash flow and minimise our loss exposure by being close to our tenants and properties Spear managed to collect 86% of pre-Covid-19 budgeted revenue and have met the best possible outcome of our Covid-19 rebasing exercise that was reported

NON-EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

in May 2020, collecting more than 97% of revenue billed for the past financial year. Furthermore, across our portfolio we maintained a 94% occupancy rate, limited rental reversions to -3%, and managed to maintain shareholder net asset value at more than R11 per share.

Despite our best efforts, in a year like 2020 business casualties are to be expected. Our exposure to Covid-19 was of particular concern in our hospitality assets that suffered a considerable loss of income due to muted local and international travel. To that effect, we were fortunate enough that in prior years hospitality asset income only contributed approximately 7% of our total rental income, and as such there was no significant profitability risk posed to our portfolio. Despite maintaining distributions for both the half year and full year for this financial year, we have had to reduce distributions to shareholders by approximately 35% as a factor of a reduced payout ratio and reduced overall income.

Although the past year did pose a few bumps in the road, our executive team executed on landmark 10-year leases with blue-chip tenants, negotiated an increase in our average debt expiry period and a relaxation of debt covenants, and has set out a clear disposal strategy for the next 24 months that will allow our business to reduce its loan-to-value ratio and at the same time increase our proportion of fixed-rental income by reducing our exposure to hospitality assets. This speaks magnitudes to our entrepreneurial flair and proactive management approach. The strong stance our board takes on governance secured transparency with our stakeholders during this difficult period and established accountability for everyone involved in addressing the challenges we faced.

Our portfolio is underpinned by high-quality, well located and sectorally defensive assets, and with our hands-on asset management approach we believe that we can execute positively on our tenant retention strategies and keep vacancies to a minimum in the forthcoming periods.

OUTLOOK AND CLOSING

Whilst we are boosted by the positive news of vaccine rollouts, we recognise that this is likely to take some time, and the swift rollout thereof is critical in restoring both investor confidence and consumer spending. The local and global outlook remains uncertain, and although the effects of the Covid-19 pandemic are likely to linger for some time, we are hopeful that the worst of the pandemic is behind us and we look forward to rebuilding our communities and economy over the coming years. The safety of our employees and the security of our tenants remain our main priorities, whilst the business continuity measures we implemented last year continue to work to our advantage.

The South African real estate industry has witnessed one of the biggest disruptions in decades. With an excess supply of rental space and changing business and consumer behaviour, the road ahead will be challenging for most landlords as they will need to be inventive in repurposing their spaces for a fast-changing market. There is increasing space for consolidation within the industry as the effects of Covid-19 and a weak economy will continue to weigh heavy on landlords.

Despite the complexity of the tough trading environment that we find ourselves in, the board and I share optimism that our executive team and staff will continue to work tirelessly and enterprisingly to add shareholder value and strengthen our ties with our stakeholders as we look to build on our successes of the past. We would like to extend our gratitude to Quintin Rossi, the executive team, and all our staff for their hard work, dedication and perseverance to ensure positive results for our business. Thank you to our shareholders, tenants and lenders for your understanding and support during this difficult period.

Lastly, as Chairman of the board, one's job is always made easier by the people at one's side. Our board has been an exceptional pillar of strength, providing shared guidance and insights on how best to navigate these challenging times. I thank you for your continued support.

Abubaker Varachhia
Non-executive Chairman

17 June 2021

430 000	25 207	9.65	17 059
VALUE (R'000)	GLA (M^2)	TOTAL VALUE (%)	VALUATION (R/M^2)