



"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."

– Abubaker Varachhia

THE NEW NORMAL

Over the past year, many of us have had the chance to regroup and take stock of the recent events that changed our lives forever. Over the past two years, it is estimated that 80% of the South African population have contracted Covid-19. With the varying degrees of lockdowns, multiple mutations of the virus and continuous spike in infections every so often, we have accepted that Covid-19 will be with us for some time to come. Notwithstanding Covid-19's challenges, with the global vaccine roll-out and the declining Covid-19 mortality rate, the world has learned to live with the virus amongst us, and although our lives are not what it was pre-pandemic, we have adjusted to living in a new normal pandemic world. I believe that we will continue to be in a state of pandemic for some time to come, but over the past few months there has been newfound positivity with increased economic activity, movement of people across borders, and work forces getting back into the office.

Last year we witnessed one of the biggest socio-economic catastrophes to engulf our democratic country. The social unrest and riots, particularly in KwaZulu-Natal and Gauteng, shocked us, and the global audience. Within hours, there were large-scale attacks on properties that were key to economic activity, and anticipated attacks on crucial state-owned assets. Many of us who were not affected by these unrests have these events etched as a distant memory, but those people and businesses who were impacted will be reeling from the pain of these events for years to come. It is unfortunate that many of our counterparts in the real estate industry were severely impacted, with losses estimated to be in excess of R30 billion.

Our business was fortunate to be spared during this time. Once again, as is during most times of adversity in our country, many South Africans took steps to protect that which was not theirs and deter those determined to cause disruption, a silver lining in the sense of comradeship within our perceived fragmented communities.

In recent months, the attacks on Ukraine by Russian forces have startled the world. Many people have been displaced and the global economy has seen immense pressure, particularly with the commodities trade. The implementation of sanctions and calls for the war to end have been widespread, and we are hopeful that a peaceful resolution can be achieved sooner rather than later. We are living in a time of extreme volatility and several short-term unknowns. The only way in which to navigate these uncertainties is to be adaptable and nimble in your approach. At Spear, we are a regionally-focused REIT built by entrepreneurs and managed by entrepreneurs, and we believe that this mindset stands us in good stead to execute on our strategy and adapt where necessary during volatile times.

ADJUSTING THE BENCHMARK

The onset of a volatile market has brought on many challenges, as well as opportunities within the real estate sector. The equity losses in the listed property sector experienced during 2020 made a significant recovery, with the South African Property Index gaining more than 70% by the end of 2021 from its lows in March 2020. Many real estate businesses have had to re-assess strategy, and in particular businesses within the listed sector have had to focus on securing steady rental income instead of chasing growth, whilst lowering loan-to-value ratios in anticipation of subdued rental growth to maintain sufficient debt serviceability levels. A few of our counterparts in the industry have maintained a stance of holding back on interim distributions to shareholders, whilst we have seen several cross-holding acquisitions and some M&A consolidation to capitalise on the mispricing within the equities market as well as to take on opportunities to bolster balance sheets. As I have previously mentioned, these activities were to be expected in a market that had been plateauing prior to Covid-19, and I expect this activity to continue, as well as anticipating the advent of spin-off listings of portfolios that are focused and specialised to a specific class or use of asset.

Inevitably, the anticipated activity and continued recovery of the real estate sector is very much dependent on the demand growth we hope will be achieved through economic recovery. From a South African governance and fiscal perspective, we have seen, to some extent, accountability for the events of state capture that occurred in the prior decade with the release of the Zondo reports and warrants of arrest for key figures responsible for state looting. Furthermore, government has invested significantly in revenue collection, which over the past year has paid off, and is adequately addressing fiscal targets to put South Africa back onto a path of investment grade status. Unfortunately, unemployment in South Africa is on the rise, in particular amongst the youth. We are hopeful to see government play its part in stimulating the economy through reducing the barriers for private enterprise to conduct business, and we at Spear are ready to play our part in pursuing better prospects for our country and its people.

In this time of many unknowns, we have seen supply chain disruptions on a global scale. To add to the volatility we have experienced, we are anticipating increasing inflation and interest rates, partially as a result of events out of our control and an attempt by governments around the world to ease back monetary policy to pre-pandemic levels. It is essential that businesses have balance sheets that are adequately prepared for the challenges that lay ahead in order to take advantage of the anticipated opportunities driven by localisation and the demands of an increasingly technologically advanced economy.

AN ENVIRONMENT IN WHICH TO THRIVE

With Spear REIT Limited being a Western Cape-focused REIT predominantly active in Cape Town and its immediate surrounds, we have the benefit of being exposed to a smaller array of volatility, whilst to an extent having a level of certainty and feedback on the prospects of the Western Cape's micro economy.

"Semigration" has been a well-known factor of the Western Cape's population growth over the past few years, exacerbated by the advent of hybrid working models, civil unrest in other parts of South Africa, a better quality of life in the Cape, and better service delivery from the local government. We expect this phenomenon to continue for the foreseeable future.

The Western Cape and Cape Town have arguably the best kept infrastructure network in South Africa, are well administered and are supportive of a path for the municipality to reduce its reliance on Eskom for power generation due to its unreliability of power supply. This in turn aids in a number of businesses wanting to establish a presence within the Western Cape, both local and international, with recent data revealing Cape Town as a major start-up and tech incubator in Africa. Furthermore, with the resumption of international travel, Cape Town has seen a recovery of the hospitality sector and ancillary businesses that support it. We continue to be a destination of choice for international travellers, which in turn has resulted in significant foreign investment within the Western Cape.

Recent economic activity within the region has been on the rise, and we are hopeful that this will continue given the strong real estate and economic fundamentals within the region, driven by semigration with an increasing rate of urbanisation amongst mid to high LSM groups.

HANDS-ON WITH OUR PEOPLE, PLANET AND PROFIT

With our regional focus, we have been able to stay close to our tenants at the times that they needed us the most, ensuring efficiency and effectiveness in our dealings, resulting in favourable outcomes for all of our stakeholders during these times of volatility. Our nimble and adaptive approach to doing business has stood us in high regard.

Furthermore, our plan to reduce reliance on Eskom and increase sustainable energy generation is on track, with 50% of our portfolio having solar power generation, which we anticipate will grow to 63% in the short to medium term. This has resulted in cost savings to both our business and that of the tenants occupying the relevant properties.



No.2 Estuaries, Century City

The responsibility placed on Spear as a business focused on creating value and goodwill for all stands as a key motivating factor to the active corporate citizenry displayed in our CSI programmes. Spear continues to invest its time and resources into the betterment of our less advantaged communities, the upliftment through education and rehabilitation programmes of previously disadvantaged South Africans and the protection of the weak and vulnerable through supporting safe havens and health care initiatives within the Western Cape.

Our strategy is focused on acquiring and holding high-quality industrial, convenience retail and commercial assets that will provide consistent distributions to our shareholders. Despite the headwinds faced, our executive team has managed to reduce Spear's loan-to-value ratio to below 40%, maintain occupancy levels of 94% across our portfolio, execute successfully on our disposal strategy whilst making strategic acquisitions, and execute and renew several leases that will mitigate rental reversionary risk. I am immensely proud of the Spear team for their successful implementation of a number of our key strategic objectives all through a challenging trading environment.

CLOSING

We are finally beginning to see some green shoots sprout through the challenging times we have experienced over the past two years. We are hopeful that with easing restrictions and vaccine positivity that the environment going forward is one in which South African businesses will thrive. The successful execution by our executive team of key strategic milestones in a challenging market, along with a strong recovery within the Western Cape of late, shines optimism on the favourable possibilities that lie ahead.

My sincere gratitude goes to our Spear team, under the leadership of Quintin Rossi, who has worked tirelessly to execute on our business plan and position our business as a leading landlord of choice. I have no doubt that the base off which we will now operate has given us a prime launchpad to grow our balance sheet in line with the executive team's forecasts. I would like to thank the board for their continued guidance and meaningful insight, and am appreciative to our shareholders, tenants and lenders for their continued patience and support.

Abubaker Varachhia
Non-executive Chairman

20 May 2022

TOP 5 PROPERTIES BY VALUE

