

RISK MANAGEMENT REPORT

The board is responsible for the governance of risk and mandates the governance thereof to the audit and risk committee to oversee and monitor the risk management framework and risk management processes.

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 translates 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; and
- Review and revise identified risks on an ongoing basis.

The board adopted a risk management policy which is implemented by the executive team and staff in the daily operations of the group. The policy is based on mitigating identified risks to the group to acceptable levels in line with industry practices whilst taking our strategic objectives into account.

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

Risk factor	Areas of impact	Company response	Status
<p>Tenant default</p>	<ul style="list-style-type: none"> • Sustainability of revenue and distribution • Portfolio vacancies • Increased bad debts 	<ul style="list-style-type: none"> • Active client engagement and daily review of arrears • Credit vetting process and preference for tenants offering strong lease covenant • Increased bad debt provisions 	<ul style="list-style-type: none"> • No significant post-year-end bad debts • Active tenant engagement regarding payment • Total vacancies only 6.24% of GLA
<p>Covid-19</p>	<ul style="list-style-type: none"> • Prolonged state of disaster • Further waves of infection 	<ul style="list-style-type: none"> • Complying with government regulations • Providing tenant rental assistance as far as company can afford 	<ul style="list-style-type: none"> • No lockdown currently in place • Trade restrictions are currently limited
<p>Tourism recovery</p>	<ul style="list-style-type: none"> • Greater economic impact on tenants in tourism industry <ul style="list-style-type: none"> – Delay in purchase call option for 15 on Orange Hotel 	<ul style="list-style-type: none"> • Tourism-specific tenant support 	<ul style="list-style-type: none"> • Tourism improving with noticeable uptick in hotel activity and inbound booking <ul style="list-style-type: none"> – Call option has 18 months before expiry
<p>Going concern risk</p>	<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 improvement of project performance • Prudent cash management 	<ul style="list-style-type: none"> • Current LTV 39.05%, well below the 55% bank covenant guideline • Cash reserves adequate to cover creditors as they become due • Solvency and liquidity performance test passed
<p>Rapid increase in utility costs, especially property taxes and electricity</p>	<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"> • Use of renewable energy sources implemented • Use of non-municipal water supply implemented 	<ul style="list-style-type: none"> • Investment in solar can decrease occupancy costs for tenants • Boreholes and well points at high water use buildings operational • 18% of lettable space comprises tenants fully recovering leases
<p>Macroeconomic environment</p>	<ul style="list-style-type: none"> • Access to capital • Interest rate risk • Rising Inflation • Tenant defaults and reduction in rental income • Low economic growth • Increasing unemployment levels 	<ul style="list-style-type: none"> • LTV target range of 38% – 43% and maintenance of adequate banking facilities • Hedging target of 65% – 75% • Focus on high-quality real estate in Western Cape only 	<ul style="list-style-type: none"> • Current LTV 39.05%, within target range • 67.03% debt fixed • 31% of GLA to large listed national or international tenants

Risk factor	Areas of impact	Company response	Status
 Deterioration in property values in current economic environment	<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"> 31% of GLA to A-grade tenants 56% of lease revenue 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 Shareholder approval received for implementation of CSP and STI programmes
 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 Increased risk of damage due to political riots 	<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 New institutional shareholders gained in FY2022

The board, via the audit and risk committee, has considered the effectiveness of the risk assessment and management process, policies and procedures and is satisfied with the effectiveness thereof.



Jalaloodien Ebrahim Allie
Chair: Audit and risk committee

20 May 2022

TOP 5 PROPERTIES BY VALUE



SECTOR / COMMERCIAL
**NORTHGATE PARK,
BROOKLYN**

