

SPEAR REIT LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2015/407237/06)

Share Code: SEA, ISIN ZAE000228995

Approved as a REIT by the JSE

("Spear" or "the Company")

ACQUISITION OF BLACKHEATH PARK RENTAL ENTERPRISE

1. INTRODUCTION

Shareholders are hereby advised that the Company has entered into a sale agreement ("**the Agreement**") with PE Shelf Co No 193 Proprietary Limited ("**Seller**") on 14 December 2017 ("**Signature Date**"). In terms of the Agreement, the Company will acquire the property known as Blackheath Park, situated at Erf 928 Blackheath, measuring 6.4973 hectares and held by the Seller under deed of transfer T26687/2007 ("**the Property**") and the rental enterprise conducted by the Seller on the Property ("**Rental Enterprise**"), as a going concern ("**the Acquisition**").

2. RATIONALE FOR THE ACQUISITION

- 2.1. The Acquisition is in line with the Company's strategy to invest into high quality assets within the Western Cape and to furthermore increase its industrial assets in Cape Town.
- 2.2. The property neighbours a current Spear property in the Blackheath node and thus provides an expansion opportunity of the Spear Blackheath DC off the back of future tenant demand.
- 2.3. The Acquisition is at an acquisition yield of 10,43% and is accretive to shareholders.

3. PURCHASE CONSIDERATION

- 3.1. In terms of the Agreement, the purchase consideration for the Rental Enterprise, including the Property, is an amount of R110 500 000 which includes value added tax at the rate of zero percent ("**Purchase Consideration**"). The Purchase Consideration bears interest at the prime interest rate from 1 May 2017 to the date of transfer of the Property into the name of the Company ("**Transfer Date**").
- 3.2. The Purchase Consideration will be paid by the Company in cash on the Transfer Date, following the fulfilment or waiver (to the extent applicable) of the conditions precedent to the Acquisition. The Purchase Consideration shall be funded by debt funding or a vendor consideration placing, or combination of both.
- 3.3. The Company will provide the Seller with normal guarantees for the payment of the Purchase Consideration, including the provision of a guarantee in the amount of R3 000 000, should the Agreement be cancelled by reason of a breach by the Company.

#### 4. CONDITIONS PRECEDENT

The Acquisition is subject to the fulfilment or waiver (to the extent applicable) of the following outstanding conditions precedent, namely that:

- 4.1. within 5 days after the Signature Date, the investment committee of the Company's board of directors approves the Acquisition; and
- 4.2. within a period of 120 days after the Signature Date, the Acquisition is approved unconditionally by the relevant competition authorities in terms of the Competition Act, No 89 of 1998.

#### 5. EFFECTIVE DATE

The Acquisition will become effective on the Transfer Date, anticipated to be 01 April 2018.

#### 6. WARRANTIES AND OTHER MATERIAL TERMS

- 6.1. The Agreement contains warranties by the Seller in favour of the Company which are standard for a transaction of this nature ("**Warranties**").
- 6.2. Subject to such Warranties, the Rental Enterprise is sold "voetstoots".
- 6.3. The Seller provides a rental guarantee to the Company in terms of which the Seller undertakes to pay to the Company the shortfall arising between the gross income received by the Company in respect of the Rental Enterprise during the 12-month period commencing on the Transfer Date and the gross income in respect of the Rental Enterprise guaranteed by the Seller in the Agreement for the same period ("**Rental Guarantee**").
- 6.4. As security for the Rental Guarantee, the Seller shall, on the Transfer Date pay an amount of R9 000 000 to the conveyancers (acting as escrow agents) to be held by them in accordance with the provisions of an escrow agreement.

#### 7. THE PROPERTY

- 7.1. Details of the Property are as follows:

| <b>Property Name and Address</b>        | <b>Geographical Location</b> | <b>Sector</b> | <b>Gross Lettable Area (m<sup>2</sup>)</b> | <b>Weighted Average Gross Rental/m<sup>2</sup></b> |
|---|------------------------------|---------------|--|--|
| Blackheath Park, Cnr. Range and Station | Blackheath, Cape Town        | Industrial    | 38 185                                     | R32,89   |

|      |  |  |  |  |
|------|--|--|--|--|
| Road |  |  |  |  |
|------|--|--|--|--|

7.2. Details regarding the Property, as at the anticipated Transfer Date, are set out below:

| <b>Purchase Yield Attributable to Shareholders</b> | <b>Weighted Average Escalation</b> | <b>Weighted Average Lease Duration (years)</b> | <b>Vacancy % by Gross Lettable Area</b> |
|--|------------------------------------|--|---|
| 10,43%   | 8%                                 | 1.83   | 5%                                      |

Notes:

- a) In addition to the Purchase Consideration, the costs associated with the Acquisition are estimated at R2 000 000. No agents' commission is payable in respect of the Acquisition.
- b) The Purchase Consideration payable in respect of the Rental Enterprise (which includes the Property) is considered to be its fair market value, as determined by the directors of the Company. The directors of the Company are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No. 47 of 2000.

#### 8. FORECAST FINANCIAL INFORMATION OF THE ACQUISITION

The forecast financial information relating to the Acquisition for the financial periods ending February 2019 and February 2020 are set out below. The forecast financial information has not been reviewed or reported on by a reporting accountant in terms of section 8 of the JSE Listings Requirements and is the responsibility of the Company's directors.

|                              | <b>Forecast for the 11-month period ending Feb-19 (R)</b> | <b>Forecast for the 12-month period ending Feb-20 (R)</b> |
|------------------------------|---|---|
| Revenue                      | 15 676 329  | 18 416 177  |
| Straight-line rental accrual | 157 015   | 39 285  |
| Gross revenue                | 15 833 344  | 18 455 462  |
| Property expenses            | (4 193 476)   | (4 852 567)   |
| Net property income          | 11 639 868  | 13 602 895  |
| Administrative expenses      | (470 290)   | (552 485)   |
| Operating profit             | 11 169 578  | 13 050 410  |
| Finance cost                 | (4 416 480)   | (4 836 127)   |

|                              |           |           |
|------------------------------|-----------|-----------|
| Profit before taxation       | 6 753 098 | 8 214 283 |
| Taxation                     | -         | -         |
| Net profit after taxation    | 6 753 098 | 8 214 283 |
| Adjusted For:                |           |           |
| Straight-line rental accrual | (157 015) | (39 285)  |
| Distributable profit         | 6 596 083 | 8 174 998 |

Notes:

- a) Revenue includes gross rentals and other recoveries, but excludes any adjustment applicable to the straight-lining of leases.
- b) Property expenses include all utility and council charges applicable to the Property.
- c) The forecast information for the 11-month period ending 28 February 2019 has been calculated from the anticipated Transfer Date, being on or about 01 April 2018.
- d) Contractual rental revenue constitutes 81% of the revenue for the 11-month period ending 28 February 2019 and 41% of the revenue for the 12-month period ending 28 February 2020.
- e) Uncontracted revenue constitutes 2% of the revenue for the 11-month period ending 28 February 2019 and 2% of the revenue for the 12-month period ending 28 February 2020.
- f) The Seller has provided the Rental Guarantee to the Company in respect of the Rental Enterprise, as set out in paragraph 6.3. Contracted revenue in respect of the Rental Guarantee constitutes 81% of the revenue for the 11-month period ending 28 February 2019 and 41% of the revenue for the 12-month period ending 28 February 2020.
- g) Near-contracted revenue constitutes 17% of the revenue for the 11-month period ending 28 February 2019 and 57% of the revenue for the 12-month period ending 28 February 2020. It is anticipated that debt funding will be used to fund 45% of the Purchase Consideration.
- h) Leases expiring during the forecast period have been assumed to renew at the future value of current market related rates.

9. CATEGORISATION

The Acquisition constitutes a Category 2 transaction in terms of the JSE Listings Requirements.

Cape Town  
15 December 2017

PSG Capital Proprietary Limited: Transaction Advisor and Sponsor

Cliffe Dekker Hofmeyr: Legal Advisor