SPEAR REIT LIMITED
Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the group" or "the company")

Unaudited consolidated interim results for six months ended 31 August 2018

Highlights

- 41.73 cents per share
  Interim distribution target achieved

- 9% - 11%
  FY2019 distribution growth forecast

- 98.88%
  Occupancy rate

- R3.37 billion
  Asset value

- 7.68%
  Asset value increase from FY2018

- 36 months
  Weighted average lease expiry ("WALE")

- 36.01%
  Fund loan-to-value ratio ("LTV")

Nature of the Business

Spear REIT Limited listed as a Real Estate Investment Trust ("REIT") on the AltX board of the Johannesburg Stock Exchange ("JSE") on 11 November 2016 and moved to the main board of the JSE on 22 May 2017. Its main business is investing in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in the Cape Town region.

The company conducts its business directly and through a number of subsidiaries, collectively referred to as the "group".

The company's property and asset management functions are internally and directly managed by the Spear executive management team.

Condensed Consolidated Statement of Financial Position

		Group Unaudited 6 months ended August 2018 R'000	Group Unaudited 6 months ended August 2017 R'000	Group Audited Year ended February 2018 R'000
ASSETS				
Non-current assets				
Investment property (including straight-line accrual)		3 374 513	2 713 264	2 912 417
Property, plant and equipment		3 597	284	1 785
Financial assets		61 408	-	55 810
Deferred taxation		6 780	6 533	5 838
		3 446 298	2 720 081	2 975 850
Current assets				
Non-current assets held for sale		-	-	221 492
Financial assets		10 926	62 822	6 466
Trade and other receivables		8 455	8 720	13 132
Cash and cash equivalents		17 404	10 675	10 220
Insurance claim receivable		-	5 178	178
		36 785	87 395	251 488
TOTAL ASSETS		3 483 083	2 807 476	3 227 338
EQUITY AND LIABILITIES				
Shareholders' interest				
Share capital		1 756 761	1 531 702	1 547 407
Share-based payment reserve		7 256	4 332	4 394
Accumulated income		398 512	175 256	365 517
Total attributable to owners		2 162 529	1 711 290	1 917 318
Non-controlling interest		54 155	55 217	54 155
		2 216 684	1 766 507	1 971 473
Liabilities				
Non-current liabilities				
Financial liabilities		1 070 502	1 010 144	1 053 434
		1 070 502	1 010 144	1 053 434
Current liabilities				
Financial liabilities		144 615	-	152 536
Other financial liabilities		-	6 485	-
Loans from related parties		3 087	444	8 411
Trade and other payables		47 551	22 779	40 840
Deferred revenue		644	1 117	644
		195 897	30 825	202 431
TOTAL LIABILITIES		1 266 399	1 040 969	1 255 865
TOTAL EQUITY AND LIABILITIES		3 483 083	2 807 476	3 227 338
Number of ordinary shares in issue		185 388 709	162 515 859	165 190 689
Treasury shares		(196 955)	(211 573)	(1 424 139)
Net ordinary shares in issue		185 191 754	162 304 286	163 766 550
Gearing ratio	(%)	36.01	37.23	38.48
Net asset value per share	(cents)	1 166	1 053	1 161
Tangible net asset value per share	(cents)	1 163	1 049	1 157

Condensed Consolidated Statement of Comprehensive Income

Group	Group	Group
Unaudited	Unaudited	Audited

	6 months ended August 2018 R'000	6 months ended August 2017 R'000	Year ended February 2018 R'000
- Contractual rental income	155 389	90 405	232 896
- Tenant recoveries	47 244	16 979	54 179
- Straight-line rental income accrual	6 257	8 662	16 980
Property revenue	208 890	116 046	304 055
Other income	3 729	4 703	12 540
Total revenue	212 619	120 749	316 595
Property operating and management expenses	(68 284)	(29 717)	(87 422)
Net property-related income	144 335	91 032	229 173
Administrative expenses	(10 901)	(7 203)	(17 530)
Net property operating profit	133 434	83 829	211 643
Fair value adjustment - investment properties	24 204	80 141	252 535
Depreciation	(1 090)	(44)	(441)
Formation and listing cost	-	-	(314)
Share-based payment expense	(2 862)	(392)	(455)
Profit from operations	153 686	163 534	462 968
Net interest	(50 315)	(29 502)	(76 044)
- Finance costs	(54 964)	(31 535)	(82 297)
- Finance income	4 649	2 033	6 253
Profit before taxation	103 371	134 032	386 924
Taxation	(241)	-	(695)
Profit for the period	103 130	134 032	386 229
Other comprehensive income	-	-	-
Total comprehensive income for the period	103 130	134 032	386 229
Attributable to:			
Equity owners of the parent	101 010	132 971	383 186
Non-controlling interest	2 120	1 061	3 043
Total comprehensive income for the period	103 130	134 032	386 229
Basic earnings per share (cents)	58.20	111.37	271.60
Diluted earnings per share (cents)	58.20	111.37	271.60
Distribution per share (cents)	41.73	36.95	78.50
Interest cover ratio (times)	2.53	2.55	2.56

Condensed Consolidated Statement
of Changes in Equity

Group	Share capital R'000	Accu-mulated profit R'000	Equity reserve R'000	Total attributable to parent R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 March 2017	917 538	65 331	3 939	986 808	-	986 808
Sale of investment in subsidiary	-	-	-	-	54 155	54 155
Profit for the period	-	132 971	-	132 971	1 061	134 032
Issue of shares	614 164	-	-	614 164	-	614 164
Distributions to shareholders	-	(23 046)	-	(23 046)	-	(23 046)
Share-based payment expense	-	-	392	392	-	392
Balance as at 31 August 2017	1 531 702	175 256	4 331	1 711 289	55 216	1 766 505
Balance as at 1 September 2017	1 531 702	175 256	4 331	1 711 289	55 216	1 766 505
Profit for the period	-	250 215	-	250 215	1 982	252 197
Distribution to minority shareholder	-	-	-	-	(3 043)	(3 043)
Issue of shares	24 762	-	-	24 762	-	24 762
Disposal of treasury shares	(9 057)	-	-	(9 057)	-	(9 057)
Distributions to shareholders	-	(59 954)	-	(59 954)	-	(59 954)
Share-based payment expense	-	-	63	63	-	63
Balance as at 28 February 2018	1 547 407	365 517	4 394	1 917 318	54 155	1 971 473
Balance as at 01 March 2018	1 547 407	365 517	4 394	1 917 318	54 155	1 971 473
Profit for the period	-	101 010	-	101 010	2 120	103 130
Distribution to minority shareholder	-	-	-	-	(2 120)	(2 120)
Issue of shares	196 886	-	-	196 886	-	196 886
Acquisition of treasury shares	12 468	-	-	12 468	-	12 468
Distributions to shareholders	-	(68 016)	-	(68 016)	-	(68 016)
Share-based payment expense	-	-	2 862	2 862	-	2 862
Balance as at 31 August 2018	1 756 761	398 511	7 256	2 162 528	54 155	2 216 684

Condensed Consolidated Statement
of Cash Flows

	Group Unaudited 6 months ended August 2018 R'000	Group Unaudited 6 months ended August 2017 R'000	Group Audited Year ended February 2018 R'000
Cash generated from operations			
Profit before tax	103 371	134 032	386 924
Adjustments for:			
Straight-line revenue accrual	(6 257)	(8 662)	(16 980)
Fair value adjustments - investment property	(24 204)	(80 141)	(252 535)
Depreciation	1 090	44	441

Finance income	(4 649)	(2 033)	(6 253)
Finance cost	54 964	31 535	82 297
Rental loss credits	-	(1 586)	(2 059)
Share-based payment reserve	2 862	392	454
Reclassification of trade receivables	(4 460)	-	(4 752)
Changes in working capital			
Trade and other receivables	4 677	(628)	(5 040)
Trade and other payables	6 711	1 224	19 288
Cash generated from operating activities	134 105	74 177	201 785
Finance income	2 742	2 033	1 602
Finance cost	(54 964)	(31 535)	(82 297)
Distribution paid	(68 016)	(23 046)	(83 000)
Taxation (paid)/received	(241)	11	11
Net cash generated from operation activities	13 626	21 640	38 101
Cash flows from investing activities			
Acquisition of investment property	(262 554)	(363 050)	(1 278 255)
Cost incurred on developments	(30 482)	-	-
Proceeds on sale of investment property	223 522	-	15 968
Acquisition of subsidiary	(62 282)	-	-
Acquisition of property, plant and equipment	(1 937)	(199)	(1 734)
Movement in financial assets	-	(9 532)	-
Proceeds from insurance receivable	178	13 509	18 508
Net cash used in investing activities	(133 555)	(359 272)	(1 245 513)
Cash flows from financing activities			
Proceeds from share issue	116 632	457 407	482 168
Proceeds from financial liabilities	57 147	-	761 214
Repayment of financial liabilities	(48 000)	(127 248)	(33 696)
Loan advanced to minority shareholder	(72)	-	(48)
Advance from related party	-	-	4 530
Repayment of related party loan	(5 324)	(3 437)	-
Loan advanced to tenant	(5 869)	-	-
Repayment of finance lease	-	(112)	(112)
Proceeds from tenant loan	131	-	-
Proceeds from other financial liabilities	-	6 485	-
Purchase of treasury shares	(2 902)	(395)	(16 669)
Proceeds from sale of treasury shares	15 370	2 975	7 613
Net cash generated from financing activities	127 113	335 675	1 205 000
Total cash movement for the period	7 184	(1 957)	(2 412)
Cash at the beginning of the period	10 220	12 632	12 632
Cash at the end of period	17 404	10 675	10 220

Summarised Operating Segment Information
Unaudited for the period ended 31 August 2018

	Revenue R'000	Profit from operations R'000	Investment property R'000
Industrial	60 061	37 733	872 391
Commercial	78 192	73 432	1 358 458
Retail	38 436	25 723	515 751
Hospitality	24 015	17 956	525 693
Residential	3 760	3 132	81 834
Non-property	1 898	(10 548)	13
Straight-lining of leases	6 257	6 257	20 373
Total	212 619	153 685	3 374 513

Selected Explanatory Notes
to the Results

1. Earnings per share

This note provides the obligatory information in terms of IAS 33 Earnings Per Share and SAICA Circular 2/2015 for the group and should be read in conjunction with note 2, where earnings are reconciled to distributable earnings. Distributable earnings determine the distribution declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

1.1 Basic earnings per share

		Group Unaudited 6 months ended August 2018	Group Unaudited 6 months ended August 2017	Group Audited Year ended February 2018
Shares in issue				
Number of shares in issue at end of year net of treasury shares		185 191 754	162 304 286	163 766 550
Weighted average number of shares in issue		173 569 356	119 392 694	141 084 847
Diluted weighted average number of shares in issues		173 569 356	119 392 694	141 084 847
Basic earnings per share				
Earnings (profit attributable to owners of the parent)	(R'000)	101 010	132 971	383 186
Basic earnings per share	(cents)	58.20	111.37	271.60
Diluted earnings per share	(cents)	58.20	111.37	271.60

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings:				
Earnings (profit attributable to owners of the parent)	(R'000)	101 010	132 971	383 186
Adjusted for:				
Fair value adjustments to investment properties	(gross)	(24 204)	(80 141)	(252 535)
	(tax)	-	-	-
Headline earnings	(R'000)	76 806	52 830	130 651
Headline earnings per share:				
Headline earnings per share	(cents)	44.25	44.25	92.60
Diluted headline earnings per share	(cents)	44.25	44.25	92.60

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

	Unaudited 6 months ended August 2018 R'000	Unaudited 6 months ended August 2017 R'000	Audited Year ended February 2018 R'000
Earnings (profit attributable to owners of the parent)	101 010	132 971	383 186
Adjusted for:			
Fair value adjustments to investment properties	(24 204)	(80 141)	(252 535)
Straight-lining of leases adjustment	(6 257)	(8 662)	(16 980)
Equity-settled share-based payment reserve	2 862	392	455
Deferred tax realisation	-	-	695
Less: Profit not distributed	-	-	(2 483)
Antecedent dividend*	3 946	15 489	16 348
Distributable profit	77 357	60 049	128 686

* In the determination of distributable earnings, the group elects to make an adjustment for the antecedent distribution arising as a result of the capital raise on 11 June 2018 as well as the private placement of shares in the acquisition of Webram Four (Pty) Ltd during the period for which the company did not have full access to the cash flow from such issues.

	Number of shares
Number of shares in issue at period end	185 388 709
Less: Treasury shares	(196 955)
Number of shares in issue net of treasury shares	185 191 754

Distribution declared and distribution per share

Distributable earnings (cents per share)		FY2019	FY2018
Interim distribution		41.73	36.95
Final distribution*		44.71	41.55
Total distributions for the period		86.44	78.50
Year-on-year growth forecast	(%)	10.11	-

*FY2019 final distribution forecast

Introduction

Spear REIT Limited (JSE code: SEA) is the only regionally specialised Real Estate Investment Trust listed on the Johannesburg Stock Exchange ("JSE").

Its main business is investing in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in the Cape Town region.

Spear's mission statement is to be the leading Western Cape-focused REIT and to consistently grow its distribution per share ahead of inflation and within the top quartile of its peer group.

Management's proximity to assets remains excellent and its acute understanding of the Western Cape real estate market truly makes Spear a regional specialist with access to excellent investment pipelines and development opportunities to further enhance an already high-quality real estate portfolio.

During the interim period both the regional economy of the Western Cape along with the national economy of South Africa have been facing various headwinds ranging from severe droughts which negatively impacted the tourism and hospitality sector in the Western Cape to national economic challenges leading to low overall growth and declining business confidence.

Management resolved to stay focused on business continuity through its early engagement and tenant-centric approach, resulting in continued sustainable revenue growth and the achievement of its interim results despite an underperforming hospitality sector.

Growing cash flows and continual distribution growth will remain a primary Spear objective, which management believes clearly displays management and shareholder alignment.

Financial results

The board of directors is pleased to announce an interim distribution of 41.73 cents per share for the six months ended 31 August 2018.

Spear's results are in line with the forecast as disclosed in its results for the year ended 28 February 2018 and a testament to Spear's focus, active asset and property management along with prudent financial management of the going concern.

On a like-for-like basis, interim period to interim period dividend per share growth is 6.5% (15 on Orange, Mega Park, No. 2 Long Street, MWEB HQ and Tyger Manor Shopping Centre transferred into the portfolio either at the half year or after, therefore the full effect on their respective incomes are not reflected). Spear's tangible net asset value per share has increased marginally since year-end to R11.63 (0.49% increase) as a result of new acquisitions and the disposal of two assets during the interim period.

The financial results achieved are attributable to the high-quality nature of Spear's assets, strong contractual income and recoveries together with cost containment and savings on finance costs.

Despite increasingly tougher trading conditions particularly in the hospitality sector, which has underperformed the rest of the Spear portfolio, distributable income targets were achieved.

Positive rental reversion on lease renewals and relets have been key contributors to the financial results for the interim period.

Vacancy rates across the portfolio have reduced to 1.12% (FY2018: 1.95%) as a result of management's execution of its leasing strategy.

During the interim period, management concluded the disposal of two properties generating R223.5 million net disposal proceeds, which have been redeployed into the acquisition of two properties for R160 million at a blended yield of 10.72% and reduction of debt of R48 million. More detailed commentary on capital management and strategy is provided in the sections below.

Active balance sheet management has seen group gearing reduce to 36.01% (FY2018: 38.48%) during the interim period as a result of debt reductions and restructuring.

There is no immediate debt refinancing required within the business. A detailed debt expiry schedule is provided within this report.

Property portfolio

Spear's current property portfolio consists of 33 high-quality assets with an average value per asset of R102 million per property, being an 8.8% increase during the interim period (FY2018: R94 million) and total gross lettable area ("GLA") of 376 757m2 valued at R3.37 billion.

The portfolio's income stream is underpinned by contractual escalations of 8.04%, a weighted average lease expiry ("WALE") of 36 months (FY2018: 33 months) together with a high percentage of A-grade tenants (listed and large nationals) comprising 57% of portfolio GLA. Vacancies across the portfolio are significantly below the national average and reported IPD SA Annual Property Index statistics with an overall vacancy of 1.12% at the end of the interim period (FY2018: 1.95% portfolio vacancies).

The information below provides a snapshot of the property portfolio as at 31 August 2018.

Top 10 properties by value

Property	Value including lease asset R'000	Sector	Gross lettable area m2	Percentage of total value %	Valuation R/m2
Mega Park, Bellville	427 656	Industrial	86 095	12.68	4 967
2 Long Street, Cape Town	422 505	Commercial	25 085	12.53	16 843
Sable Square Shopping Centre, Milnerton	375 333	Retail	30 947	11.13	12 128
15 on Orange, Cape Town	312 996	Hospitality	16 726	9.28	18 713
UES DoubleTree by Hilton, Woodstock	219 728	Hospitality	11 427	6.51	19 229
MWEB Head Office, Bellville	148 400	Commercial	11 195	4.40	13 256
1 Waterhouse Place, Century City	113 203	Commercial	11 030	3.36	10 263
Blackheath Park, Blackheath	111 532	Industrial	37 334	3.31	2 987
Old Mutual Private Wealth, Century City	99 093	Commercial	4 199	2.94	23 599
Blackheath Warehouse, Blackheath	89 065	Industrial	22 315	2.64	3 991
	2 319 511		256 353	68.78	9 048

Vacancy profile	Number of properties	Value (excluding lease asset) R'000	Gross lettable area m2	Vacant area m2	Vacancy %
Industrial	8	872 391	193 690	-	0.00
Commercial	17	1 358 458	112 119	2 662	2.37
Retail	5	515 751	34 795	1 234	3.55
Hospitality	2	525 693	28 153	331	1.17
Residential	1	81 834	8 000	-	0.00
	33	3 354 127	376 757	4 227	1,12

Sectoral performance

Industrial

The industrial portfolio has traded robustly through tough economic conditions currently experienced in the market and management's hands-on asset management approach has paid dividends resulting in satisfactory tenant retention and renewal rates.

The industrial portfolio offers a diversified industrial offering situated in well-established industrial nodes consisting of mini, mid-size and large industrial units.

The industrial portfolio has delivered high occupancy rates and strong performance in line with management's expectations during the reporting period with positive relet and rental reversion and no major tenant movements.

The industrial portfolio (193 690m2) occupancy was at 100% at the end of the interim period and remains well poised to continue to perform in line with management's guidance.

Commercial

The commercial sector has not been immune to the tough trading conditions currently experienced in the market with a 2.37% commercial office vacancy during the reporting period translating to 2 662m2 of GLA.

Office sector lease renewals continue to be concluded with positive rental reversions achieved in the majority of renewals during the reporting period showing a 9.99% upward rental reversion.

Excellent progress has been made on the letting of the office additions at Sable Square with 2 638m2 of the 3 100m2 of additions having been let at or in excess of the R125/m2 excluding VAT level.

Only 480m2 of office vacancy remains, which is currently under negotiation.

The bulk of commercial vacancies are attributable to the office space at No. 2 Long Street in the region of 2 000m2. Letting of the offices at No. 2 Long Street has gained momentum with a number of new lease agreements being close to concluded, which would see a further reduction of the group's commercial vacancies.

As the economic climate deteriorates further management is mindful that the commercial office sector could be negatively impacted as tenants look to cut staff costs, optimise space and reduce overheads, which could lead to a sharp increase in office vacancies across the real estate sector in the coming months. Spear's hands-on approach and early engagement strategy will be critical to safeguard the business against increased vacancies.

The commercial portfolio (112 119m2) occupancy was at 97.63% at the end of the interim period.

Retail

The retail portfolio consists of two convenience retail centres that offer an ultra-convenience retail experience with ample parking.

Spear's retail assets are located in high-growth nodes servicing the Century City and Northern Suburbs market. During the reporting period 44% (15 259m2) of retail GLA (34 795m2) was occupied by national retail tenants. Management has been gratified at the positive performance of its retail assets amid tough trading conditions during the reporting period with key retail tenants showing positive growth in store revenue and footfall.

Spear's retail assets will remain attractive locations for retailers to trade from given their high-quality tenant mix geared towards a convenience retail offering, ample shopper parking, ease of access and egress along with plum geographical locations offering easy access to all main arterial transportation routes. Management will remain focused on the acquisition of convenience retail assets given their defensive nature in showing constant footfall and turnover during good and tough trading conditions in the market.

The retail portfolio (34 795m2) occupancy was at 96.45% at the end of the interim period.

Residential

Spear's residential portfolio for the reporting period continued to perform to the satisfaction of management with 100% occupancy rates.

Currently only 2.12% of GLA is exposed to the residential sector, however, management has stated its intention to increase Spear's residential holdings closer to 15% of GLA and 12% of portfolio value in the medium term through the development of approximately 200 residential units at Sable Square and 200 residential units in Paarden Eiland as part of its mixed-use development plans for the two assets.

Hospitality

The current performance of the domestic economy and environmental impact continue to present challenges to the hospitality sector as both transient and group business have been severely impacted by the drought experienced in the Western Cape. The hospitality sector over the reporting period has continued to operate under extremely tough trading conditions.

The drought in the Western Cape has been broken and a strong focus now is to rebuild hospitality occupancies and room rates as a key recovery metric to the overall hospitality sector.

The pace at which the recovery of the hospitality sector will take place at this stage remains uncertain due to the shift in interest by dominant markets to other destinations during this time.

At best, management is of the opinion that some green shoots on the recovery path have already started to show, however, meaningful recoveries will most likely only start to emerge towards the start of 2019.

A weakened local currency and volatile emerging and competing markets to our destination might aid our recovery in building buyer confidence in our overall offering.

Although occupancies might initially return, the biggest challenge will remain in recovering lost rate strength experienced during the downturn.

The hospitality portfolio (28 153m2) occupancy was at 98.87% at the end of the reporting period.

Tenant grading

	Gross lettable area m2	Gross lettable area %	Number of tenants	Number of tenants %
A - Large nationals, large listed and government	216 525	57	101	26
B - Smaller international and national tenants	115 128	31	195	50
C - Other local tenants and sole proprietors	29 982	8	91	24
Parking and storage	10 895	3	-	-
Vacant	4 227	1	-	-
	376 757	100	387	100

Letting activity

Spear began the interim period with an opening vacancy of 6 334m2 and with 81 881m2 expiring during the period.

Management has successfully renewed and relet 81 002m2 (98.93%) at a positive reversion of 6.92%.

Only the retail sector showed negative rental reversions on renewal rates which was isolated to one historical lease agreement that had to be rebased after the expiry of the initial 10-year lease period prior to the commencement of the new 10-year lease term.

The table below reflects the letting activity of the interim period:

YTD	Expiries and cancellations GLA	Gross expiry rental R/m2	Renewals/ New lets GLA	Gross new rental R/m2	Rental reversion %
Industrial	69 599	32.92	69 114	35.02	6.40
Commercial	9 347	149.00	9 063	163.88	9.99
Retail	2 935	112.08	2 825	101.46	-9.48
	81 881		81 002		6.92

Spear's lease expiry profile remains defensive with a WALE of 36 months.

Spear's asset and property management team has a hands-on approach to tenant retention and actions tenant engagements well in advance of expiry to ensure business continuity and risk management for the business.

Lease expiry profile

Lease expiry profile based on GLA	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Vacant	0	3	3	1	0	1
Monthly	2	1	0	0	0	1
Expiries for 09/2018 - 08/2019	18	16	17	1	0	15
Expiries for 09/2019 - 08/2020	31	40	18	0	0	30
Expiries for 09/2020 - 08/2021	30	14	27	2	0	22
Expiries for 09/2021 - 08/2022	1	6	20	0	100	7
Expiries for 09/2022 - onwards	18	20	15	96	0	24
	100	100	100	100	100	100

Lease expiry profile	Industrial	Commercial	Retail	Hospitality	Residential	Total

based on revenue	%	%	%	%	%	%
Monthly	3	1	0	0	0	2
Expiries for 09/2018 - 08/2019	14	14	21	4	0	14
Expiries for 09/2019 - 08/2020	35	45	14	0	0	37
Expiries for 09/2020 - 08/2021	30	16	31	9	0	20
Expiries for 09/2021 - 08/2022	1	6	17	0	100	7
Expiries for 09/2022 - onwards	17	18	17	87	0	20
	100	100	100	100	100	100

Weighted average in force escalations and yields

	Escalation	Yield
	%	%
Industrial	8.53	8.99
Commercial	7.89	8.51
Retail	7.72	8.99
Residential	8.00	7.74
Hospitality	Note 1 and 2	6.72
Group average	8.04	8.41

Notes:

1. DoubleTree by Hilton Cape Town has a lease with a third party operator which is based on a fixed (60% of budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental) lease.
2. 15 on Orange, African Pride, has a full variable lease based on monthly hotel turnover.

Acquisitions and disposals

The group acquired the following properties during the period ended 31 August 2018:

	Transfer date	Acquisition value R'000	Debt funding R'000	Cash/ share funding R'000	Acquisition yield %
Island Business Park, Paarden Eiland	08/03/2018	24 000	-	24 000	9.31
Blackheath Park, Blackheath	12/04/2018	110 500	49 725	60 775	10.43
Old Mutual Private Wealth, Century City	12/07/2018	98 000	-	98 000	9.22
1 Waterhouse Place, Century City	24/07/2018	114 500	-	114 500	12.22
		347 000	49 725	297 275	10.30

The group disposed of the following properties during the period ended 31 August 2018:

	Transfer date	Disposal value R'000	Cash payment value R'000	Disposal yield %
Tyger Manor, Tyger Valley	20/06/2018	75 000	75 000	8.00
142 Bree Street, Cape Town CBD	18/07/2018	150 000	150 000	3.00
		225 000	225 000	5.50

Capital expenditure and redevelopment

Spear embarked on a number of capital expenditure projects during the interim period:

78 on Edward, Tyger Valley

Management actioned the redevelopment of two assets into a consolidated A-grade office building on Edward Street, Tyger Valley off the back of increased tenant demand and low overall area vacancies. The overall development costs of 78 on Edward on completion will be R89 million with the completion date being end of December 2018.

The initial yield on cost will be 9% based upon all vacant units being let in line with the approved development feasibility. At the end of the interim period management was in advanced negotiations with users for 2 650m2 of the available 3 500m2 being developed.

The development comprises 1 500m2 prime high street retail space, 2 500m2 of AAA-grade office space and a parking ratio of four bays per 100m2 let.

No. 1 Waterhouse, Century City

The property is located in the sought-after Century City precinct. The building is made up of 10 500m2 of office space over four levels with a parking ratio of four bays per 100m2.

The property was acquired vacant at R10 000/m2 with a two-year head lease in place from the seller. Management has embarked on a full refurbishment project on this property with a capital expenditure allocation of R70 million. Based upon management's feasibility and projected net income stream on completion the target yield will be in the region of 9,5%.

Completion date of the No. 1 Waterhouse project will be April 2019.

15 on Orange Hotel & Spa, Cape Town

Management undertook a critical assessment of the product offering at 15 on Orange Hotel and concluded that the hotel was not a beneficiary of the leisure market given certain limitations to the property at the time. Furthermore, the conference offering presented itself as detached from the food and beverage offering in the hotel, which hampered synergies between the two key components that typically should operate hand in hand. In consultation with Marriott it was agreed to relocate certain portions of the conference offering to the main hotel public area levels. Management has embarked on key enhancements to the pool area, food and beverage areas and conference areas allocating R44 million as capital expenditure on this property. Project completion is set for end of October 2018.

Capital allocation and strategic focus

Management will focus on long-term shareholder returns by investing into yield-enhancing assets and continuing to grow sustainable cash flows for the business.

The South African economy and real estate sector remain under pressure, largely driven by political uncertainty, contagion in the sector and emerging markets sell-off, creating various headwinds for management to navigate. Under the current trading conditions management has remained selective with capital deployment into new assets during the interim period. Over the next 12 months management believes that asset pricing will adjust to levels that talk to the overall group strategy of acquiring high-quality earnings-enhancing Western Cape assets. Given Spear's regional focus management is confident that access to quality assets will continue well into the future.

Balance sheet and risk management

Management remains focused on balance sheet and risk management factors that impact the day-to-day operations of the business.

Management has strengthened its relationship with key funding partners to ensure that Spear's balance sheet reflects a well-managed and active business poised to take advantage of funding opportunities and deal flow when they are presented. Management aims to maintain gearing levels at around the 40 - 45% loan-to-value ("LTV") level on group debt together with an acceptable hedging policy to provide income certainty in challenging economic times.

Spear's debt portfolio remains actively managed with an all-in cost of debt for the reporting period of 9.04% and a hedged ratio of 42.13%.

The group's gearing levels at the end of the interim reporting period was at 36% translating to a 6.43% decrease from the end of FY2018.

Spear's revised debt expiry profile below provides short to medium-term refinance risk with the bulk of Spear's debt becoming due for renegotiation in FY2021.

Cost to income

Net total cost to income for the period was 22.12%, increasing from 18.51% as at 28 February 2018. The increase is directly related to the significant increase in utility rates and property expenses.

Administrative cost to income for the period was 5.92%, increasing from 5.85% as at 28 February 2018. The increase is directly related to the employment of additional staff with the increase in the property portfolio.

Note: Revenue excludes straight-line income adjustments.

Distributable earnings

The board approved and declared distribution number 4 of 41.73 cents per share on 18 October 2018.

The distribution declared is an increase of 12.93% over the distribution for the six months ended 31 August 2017.

The forecast distribution for the year ended 28 February 2019 remains on target.

	FY2019
Distribution number 4 - Interim distribution recommended by the board and approved on 18 October 2018	41.73
Distribution number 5 - Forecast final distribution	44.71
Total distribution for the year ending 28 February 2019	86.44

Borrowings and funding

The group obtained funding for property acquisitions through one capital raise and increasing bank borrowings as disclosed under acquisitions.

Capital raise date	Number of shares (million)	Price (Rand)	Value (R million)
11 June 2018	11.85	10.00	118.5

Group gearing

	Gearing %	Variance %
31 August 2017	37.23	
28 February 2018	38.48	3.36
31 August 2018	36.01	(6.43)

Cost of debt for period	Average %	Variance %	Average fixed cost %	Variance %
31 August 2017	9.23		9.51	
28 February 2018	9.25	0.22	9.45	(0.60)
31 August 2018	9.04	(2.30)	9.09	(3.84)

The in-force cost of debt for the next 12 months of operation will be further reduced to 8.89% through management's active debt management.

The rate does not include any potential interest rate increases from the South African Reserve Bank.

	Amount R'000
Variable borrowings	703 163
Fixed borrowings	511 954
Total borrowings	1 215 117
Percentage fixed	42%

Debt expiry

	R'000	%
FY2019	44 615	4
FY2020	100 000	8
FY2021	511 954	42
FY2022	403 166	33
FY2023	155 382	13
	1 215 117	100

Tangible net asset value

The tangible net asset value per share increased by 0.49% from R11.57 per share to R11.63 per share.

Tangible net asset value	Rands	Growth %
28 February 2017	10.03	-
31 August 2017	10.49	4.61
28 February 2018	11.57	10.31
31 August 2018	11.63	0.49

Receivables

Amid increasingly tougher trading conditions, receivables represented 3.1% of total revenue excluding smoothing. Management has commended its debtors management team for the prudent collections and low receivables. Management is cognisant of the fact that as South Africa continues to be negatively impacted by the weak macro-economic environment, the probability of a higher percentage receivables cannot be discounted, however, a concerted effort is made to guard against receivables creep.

Provisions for bad debt cover all debtors greater than 90 days with adequate provisions made for doubtful receivables.

Sustainability

PV solar roll-out

As part of Spear's sustainability strategy, a renewable energy roll-out has commenced with the first PV solar installation at Sable Square Shopping Centre in the Century City area.

The PV solar installation will be a 800kWh system at a cost of R9 million with a payback period of four years. The latter installation will become active by 1 October 2018.

A further 10 assets have been earmarked as part of the phase one roll-out, which would result in an additional 3.7MWp of renewable energy generated from alternative sources on Spear rooftops.

Total earmarked expenditure for FY2019 will be R49 million with an average payback period of four years. On completion and full commissioning 33% of the Spear portfolio will be equipped with a PV solar solution.

Water continuity

Spear's water continuity programme continues to be implemented across key parts of the portfolio. Capital expenditure on water continuity projects amounted to R5 million ranging from additional boreholes, water tanker trucks, water filtration systems and water storage tanks. The DoubleTree by Hilton Hotel in Woodstock post the implementation of the water continuity plan is generating 120 000 litres of potable water daily to service both the hotel and the balance of the mixed-use scheme. Water usage across the portfolio has been reduced with the implementation of tap aerators, waterless urinals and hand sanitizers where applicable. Pre-diluted cleaning materials have been deployed across the portfolio and where possible grey water is used for exterior cleaning and irrigation.

Board appointments

Shareholders were advised that Dr. Rozett (Roze) Phillips had been appointed as a non-executive director with effect from 16 July 2018 and will be approved by shareholders at the next AGM to be held.

Roze holds the position of Management Consulting lead and Geographic Council member for Accenture Africa, and is a board member of Accenture South Africa. She also serves as the Innovation lead, creating the enablers for innovation on the continent. Roze has over 20 years' experience in consulting to consumer-related industry clients across the value chain with the intent of driving better strategic and sustainable outcomes while transforming business and improving well-being in Africa.

With the advent of digital technologies, Roze now assists public and private sector clients to unlock the business and societal value that can be created through utilising these digital technologies.

Roze is executive sponsor and member of the board of trustees for Born to Succeed, a public benefit organisation dedicated to empowering young South African women with the necessary skills and providing mentorship to prepare them for the workplace and find employment.

Born in Cape Town, Roze holds an MBChB degree and an MBA degree from the University of Cape Town and a postgraduate diploma in Futures Studies from the University of Stellenbosch. Prior to joining Accenture, she was a medical doctor at Groote Schuur Hospital and a specialist scientist at the SA Medical Research Council.

Outlook

The portfolio remains stable and well positioned to deliver on management's guidance for the 2019 financial year. Spear remains a pure property investment company with a well-diversified, defensive and stable core property portfolio. The South African economy and political landscape remain in uncertain territory placing strain on its people and its investment attractiveness.

Spear remains committed to South Africa and contributing to job creation and skills development in the Western Cape to reduce the burden that unemployment places on South Africa and its people.

- Management will focus on improving the core portfolio through the acquisition of yield-enhancing assets within the Western Cape.
- Management will continue to focus on prudent capital management and deploy its capital resources with both an entrepreneurial and value investor mindset, seeking to carve out additional returns through its value enhancement strategies.
- Management remains heavily invested in Spear and has committed to the retention of respective investments within Spear to reinforce its alignment with shareholder interests.
- Management is confident that Spear is trading on a stable management platform which will ensure that the company's growth objectives are achieved both in the form of assets and human capital. The reporting period has not just been a period of growth in asset value but also growth in the human capital required to successfully execute the day-to-day operational requirements of the business. Management is pleased to report that highly skilled real estate professionals have been added to the Spear team, which further underpins the value proposition when conducting any form of business with the group.
- The company will continue its tenant-centric approach which has created strong customer loyalty and high tenant retention rates within the core portfolio.

Prospects and guidance

The political and tough economic environment remains a concern as business sentiment continues to deteriorate and the increased cost of living places continued pressure on the general population.

Management has noted that the local market continues to weaken which may start to put further pressure on general business resulting in undue pressure on the commercial office market as companies move to cut overheads and optimise their trading space.

The potential for an upward trend in commercial office vacancies in a low-growth economy may be a tough reality that lies ahead.

The guidance provided in May 2018 is unchanged. The trading conditions within the hospitality sector have started to improve with early green shoots becoming evident in hotel occupancies.

Management has to the best of its ability forecast its earnings with the above in mind, having taken the necessary steps to best mitigate against any further downturn.

Management remains confident that demand for its high-quality rental properties across the various sectors within the Western Cape will continue given its tenant-centric approach and hands-on asset management skills. The core portfolio continues to perform to management's expectations.

The guidance has been based on the assumption that over the course of the next six months:

- a relatively stable macro-economic environment will prevail;
- lease renewals are concluded as per the company forecast;
- no major tenant failures will take place;
- tenants will successfully absorb rising costs associated with utility consumption charges and municipal rates; and
- trading conditions continue to improve in the overall tourism sector directly related to hotel occupancies and room rates.

Any changes in the above assumptions may affect management's forecast.

The interim distribution of 41.73 cents per share is in line with management's guidance set out for the period ending 31 August 2018.

The information and opinions contained above are recorded and expressed in good faith and are based upon reliable information provided to management.

No representation, warranty, undertaking or guarantee of whatsoever nature is made or given with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

The forecast for the period ending 28 February 2019, is the sole responsibility of the directors and has not been reviewed or audited by Spear's independent external auditors.

Subsequent events

The directors are not aware of any events that have occurred since end of the financial period, which have a material impact on the results and disclosures in these unaudited consolidated interim financial results.

Please refer to the SENS announcement released on 2 October 2018 relating to the disposal of non-core assets. The SENS announcement is available on the company's website.

Basis of preparation

The unaudited consolidated interim results for the six months ended 31 August 2018 are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. Except for the adoption of revised and new standards that became effective during the year, all accounting policies applied in the preparation of these unaudited interim consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. There was no material impact on the annual financial statements as a result of the adoption of these standards.

Christiaan Barnard CA (SA), in his capacity as Chief Financial Officer, was responsible for the preparation of the unaudited consolidated interim results for the six months ended 31 August 2018. These consolidated interim results have not been reviewed or reported on by the company's auditors.

Interim distribution for the six months ended 31 August 2018

Notice is hereby given of the declaration of interim distribution number 4 of 41,72738 cents per share.

As Spear is a REIT, the distribution meets the definition of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). Qualifying distributions received by South African tax residents will form part of their gross income in terms of section 10(1)(k)(i)(aa) of the Income Tax Act. Consequently, these distributions are treated as income in the hands of the shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

South African tax residents

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exception, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act, because it is a dividend distributed by a REIT. The dividend is exempt from dividends withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their Central Securities Depository Participant ("CSDP") or broker in respect of uncertificated shares, or to the company, in respect of certificated shares:

- a declaration that the dividend is exempt from dividend tax; and
- a written undertaking to inform their CSDP, broker or the company, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-residents shareholders

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013, dividends received by non-residents from a REIT were not subject to dividend withholding tax. Since 1 January 2014, any dividend received by a non-resident from a REIT will be subject to dividends withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation between South Africa and the country of residence of the shareholder concerned. Assuming dividends withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 33,38191 cents per share. A reduced dividends withholding rate in terms of the applicable Double Taxation Agreement ("DTA") may only be relied on if the non-resident shareholder has provided the following form to their CSDP or broker in respect of uncertificated shares, or the company, in respect of certificated shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of DTA; and
- a written undertaking to inform their CSDP, broker or the company, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Non-resident shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

The number of ordinary shares in issue on declaration date is 185 388 709.

The company's tax reference number is 9068437236.

Holders of uncertificated shares have to ensure that they have verified their residence status with their CSDP or broker. Holders of certificated shares will be asked to complete a declaration to the company. The distribution is payable to shareholders in accordance with the timetable set out below:

	2018
Declaration date	Thursday, 18 October
Last day to trade cum dividend distribution	Tuesday, 6 November
Shares trade ex dividend distribution	Wednesday, 7 November
Record date	Friday, 9 November
Payment date	Monday, 12 November

Share certificates may not be dematerialised or rematerialised between Wednesday, 7 November 2018 and Friday, 9 November 2018, both days inclusive.

In respect of dematerialised shareholders, the distributions will be transferred to the CSDP/broker accounts on Monday, 12 November 2018. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 12 November 2018.

On behalf of the Board
Spear REIT Limited

Cape Town
18 October 2018

Abubaker Varachhia	Quintin Rossi	Christiaan Barnard
Non-executive Chairman	Chief Executive Officer	Chief Financial Officer

Directorate
and Administration

SPEAR REIT LIMITED
Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the group" or "the company")

Registered Office

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Directors

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Michael Naftali Flax (Deputy Executive Chairman)
Quintin Michael Rossi (Chief Executive Officer)
Christiaan Barnard (Chief Financial Officer)
Brian Leon Goldberg*#
Jalaloodien Ebrahim Allie*# (Lead Independent Director)
Niclas Kjellstrom-Matseke*#
Cormack Sean McCarthy*
Dr. Rozett Phillips*#

* Non-executive
\# Independent

Company Secretary

Rene Cheryl Stober

Transfer Secretaries

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Bankers

Nedbank Limited
Standard Bank Limited
Investec Limited

Cape Town
18 October 2018