

## **SPEAR REIT LIMITED**

(Incorporated in the Republic of South Africa)

(Registration number: 2015/407237/06)

Share code: SEA

ISIN: ZAE000228995

LEI: 378900F76170CCB33C50

(Approved as a REIT by the JSE)

("Spear" or "the Company")



**SPEAR**  
**REIT LIMITED**

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## **15 ON ORANGE LEASE AND ASSET UPDATE**

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### **1. INTRODUCTION**

Shareholders are hereby advised that the Company and its wholly-owned subsidiary, Blend 15 Proprietary Limited ("**Blend 15**" or the "**Landlord**"), being the owner of the property comprising the 15 on Orange Sectional Title Scheme, which includes the hotel, commercial, retail and parking sections ("**Property**") entered into an agreement of lease ("**Lease**") with The Capital Apartments and Hotels Proprietary Limited ("**Tenant**") and an option agreement ("**Option Agreement**") with The Capital Apartments and Hotels Group Proprietary Limited ("**Purchaser**"), the details of which are set out below.

The Lease is a fixed income lease and is in line with management's stated strategy to continue its transition to fixed income assets only.

### **2. SALIENT TERMS OF THE LEASE**

#### **Occupation Date**

In terms of the Lease, the Tenant will take occupation of the Property on or about 3 June 2021. ("**Occupation Date**").

#### **Commencement Date**

The Lease shall commence on 1 August 2021 or as soon as possible thereafter, ("**Lease Commencement Date**")

#### **Lease Period**

The duration of the Lease shall be 7 years calculated from the Lease Commencement Date ("**Initial Lease Period**").

#### **Option to Renew**

The Tenant has the option to renew the Lease for a further period of 7 years, provided that the Tenant is not in breach of the Lease during the Initial Period. The option to renew the Lease may be exercised at any time during the Initial Period, by the Tenant delivering a written notice to this effect to Blend 15.

### **Monthly Net Rental (excluding Municipal and Utility Charges)**

The basic monthly net rental (excluding municipal and utility charges, which are recoverable from the Tenant) payable by the Tenant to Blend 15 for the hotel, commercial, retail and parking sections shall be a fixed amount. During the first and second years of the Lease Period, the basic monthly rental shall be R1 916 666.67 (including value-added tax). Thereafter, the basic monthly rental payable during the remaining years of the Lease Period will escalate annually at a fixed rate of 5% per annum (compounded annually) with effect from the second anniversary of the Lease Commencement Date

### **Use of the Property**

The Tenant shall use the Property for the provision of hospitality, serviced apartments,, restaurant and conference related services.

### **Conditions Precedent to the Lease**

The Lease is subject to the fulfillment of the various conditions precedent that must be fulfilled by no later than 31 March 2021.

## **3. BENEFITS OF THE LEASE TO SPEAR**

The Lease is a fixed income lease and is in line with management's stated strategy to continue its transition to fixed income assets only.

The Lease will be for a maximum period of 7 years with various renewal options available to the Tenant. The Tenant will invest no less than R15 million of its own capital into various room and FFE upgrades, establishing aparthotel rooms and related accommodation in line with the Tenant's business operating model. Post the various room and public area upgrades, the Tenant will be responsible for up keep and on-going refurbishment costs for the hotel.

The Lease is triple net lease in terms of which the Tenant will be responsible for all costs associated with the Property. Net rental income of the initial 12-month basis will contribute R20 million to Spear's income statement (rental income of only R1.8 million was received from the previous hospitality tenant for the FY21 period, as a result of the Covid-19 pandemic and its residual impact). The new fixed income lease will have a notable, restorative and positive impact on group earnings from 1 August 2021.

During FY21, the impact of Covid-19 eliminated the majority of hospitality income of the Company due to its variable nature impacting group earnings negatively. The new Lease removes the variable income risks associated with 15 on Orange, providing certainty to shareholders in line with Spear's fixed income investment strategy.

The Tenant will be responsible for all operational requirements during the currency of the Lease in addition to any and all FFE upgrades required by the Tenant at any particular time. The Landlord will have zero involvement in the running or management of the hotel for the period that the Lease remains in place.

The conclusion of the Option Agreement is in line with Spear's stated strategy to exit its hospitality assets.

#### 4. THE CAPITAL HOTEL AND APARTMENT GROUP

Established in 2008, The Capital Hotel and Apartments Group is led by industry veteran Marc Wachsberger and a highly skilled hospitality team. The Capital Hotel portfolio is one of the fastest growing owner operated hotel and luxury apartment providers in South Africa. The current hospitality portfolio consists of over 1400 rooms, apartments and conference centres across 10 hotels in South Africa. The Capital Hotels are located in Johannesburg, Pretoria, Cape Town and Umhlanga with national and Southern Africa growth plans.

#### 5. SALIENT TERMS OF THE OPTION AGREEMENT

In terms of the Option Agreement, Blend 15 irrevocably granted the Purchaser a call option ("**Call Option**") to purchase the Property, together with (i) the Lease, (ii) all movable assets owned by Blend 15 and situated on the Property and (iii) all of Blend 15's rights, title and interest in and to the name "15 on Orange" or any deviation thereof (collectively, the "**Disposal Assets**"), for the disposal consideration of R265 000 000 ("**Disposal Consideration**"), subject to the escalation as set out below.

##### **Exercise of the Call Option and the Resultant Disposal**

The Call Option may be exercised at the discretion of the Purchaser at any time during a period of two years of the Lease Commencement Date ("**Option Period**").

If the Purchaser fails to exercise the Call Option within the Option Period, the Call Option shall lapse and be of no force and effect.

If the Purchaser exercises the Call Option within the Option Period, Blend 15 shall have agreed to sell the Disposal Assets to the Purchaser and the Purchaser shall have agreed to purchase the Disposal Assets from Blend 15 ("**Disposal**").

Within thirty days of the date on which the Call Option is exercised ("**Call Option Exercise Date**"), the Purchaser will be required to furnish the conveyancers with an unconditional, irrevocable bank guarantee, as security for the payment of the Disposal Consideration ("**Guarantee**").

##### **Disposal Consideration**

If the Purchaser fails to deliver the Guarantee within thirty days of the Call Option Exercise Date, the Disposal Consideration will increase by an additional R13 250 000.

Furthermore, if the Property is not transferred, free of any encumbrances, into the name of the Purchaser by the date falling four months after the date on which the last of the Conditions Precedent to the Disposal (as defined below) have been fulfilled or waived, as the case may be ("**CP Fulfilment Date**"), the Disposal Consideration will be increased at an annual rate of 5% (compounded annually), for the period commencing on the date falling four months after the CP Fulfilment Date (or such later date as may be agreed between the parties) and ending on the earlier of (i) the date that is 24 months thereafter, and (ii) the date of transfer of ownership of the Property into the name of the Purchaser ("**Transfer Date**").

The Disposal Consideration shall be paid by the Purchaser to Blend 15 in cash.

## **Conditions Precedent to the Disposal**

The Disposal is subject to the fulfilment of the following outstanding conditions precedent (“**Conditions Precedent to the Disposal**”):

- to the extent applicable, within 120 days after the Call Option Exercise Date, the Disposal is approved unconditionally by the South African Competition Commission or is approved on such terms and conditions as are reasonably acceptable to the parties); and
- within 10 business days of the Call Option Exercise Date, Spear, as shareholder of Blend 15, approves the Disposal in terms of section 112 of the Companies Act No.71 of 2008.

In terms of the Option Agreement, Spear irrevocably and unconditionally undertakes to vote in favour of the above section 112 resolution and further undertakes not to dispose of its shares in Blend 15 without procuring that the acquirer of such shares makes an equivalent undertaking in favour of the Purchaser.

## **Warranties and other Significant Terms of the Option Agreement**

The Option Agreement contains warranties and indemnities by the Company and Blend 15 in favour of the Purchaser which are standard for a transaction of this nature. The warranties are qualified and limited to the extent that any breach thereof was caused by The Capital, as the tenant of the Property in terms of the Lease.

In terms of the Option Agreement, the Purchaser may, instead of acquiring the Disposal Assets, elect to acquire the entire issued share capital of Blend 15 (“**Sale Shares**”) from Spear. The provisions of the Option Agreement that applies to the Disposal shall apply *mutatis mutandis* to the sale of the Sale Shares, provided, *inter alia*, that

- the purchase consideration shall be paid to Spear within 14 days after the CP Fulfilment Date (“**Sale of Shares Closing Date**”) or such earlier or later date as may be agreed between Spear and the Purchaser; and
- section 15 in the sectional title scheme, being the penthouse, together with certain parking bays, a storeroom and a balcony will be internally transferred directly to Spear by Blend 15 for the sum of R1 and will not comprise part of the Disposal.

## **6. APPLICATION OF THE DISPOSAL CONSIDERATION**

In line with Spear’s stated strategy to reduce its group loan to value (LTV), the full Disposal Consideration will be utilised to settle debt.

## **7. EFFECTIVE DATE OF THE DISPOSAL**

The effective date of the Disposal will be the date of registration of transfer of the Property into the name of the Purchaser.

## **8. RATIONALE FOR THE CALL OPTION**

Granting the Call Option to the Purchaser is in accordance with Spear’s stated strategy of exiting its hospitality assets in the short to medium term.

## 9. THE PROPERTY

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>) - Hospitality</b>	<b>Gross Lettable Area (m<sup>2</sup>) – Commercial and Retail</b>	<b>Weighted Average Gross Rental / m<sup>2</sup> - Hospitality</b>	<b>Weighted Average Gross Rental / m<sup>2</sup> – Commercial and Retail</b>
15 on Orange	Cape Town	Hospitality	14 207	1 847	R146	R111

Notes:

- a) In addition to the Disposal Consideration, the costs associated with the Disposal are estimated at R 1 000 000 (One Million Rand). No agents' commission is payable in respect of the Disposal.
- b) In determining the Disposal Consideration, the value of 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.

## 10. FINANCIAL INFORMATION

The value of the net assets attributable to the Disposal Assets as at 31 August 2020, being the date of the last unaudited management accounts of Blend 15, was R278 569 309]. The value of the property at the same date was R277 326 460 , which includes section 15 in the sectional title scheme, being the penthouse (valued at R12 000 000), together with certain parking bays, a storeroom and a balcony that will not form part of the Disposal.

The unaudited profit after tax attributable to the Disposal Assets for the six months ended 31 August 2020, was R431 624, based on the unaudited management accounts of Blend 15 for the six months ended 31 August 2020 , which were prepared in terms of IFRS.

Blend 15 is a wholly-owned subsidiary of Spear and, accordingly, Spear is satisfied with the quality of the management accounts of Blend 15.

## 11. CLASSIFICATION OF THE DISPOSAL

The Disposal constitutes a category 2 transaction in terms of the JSE Limited Listings Requirements.

Cape Town  
18 March 2021

Sponsor and Corporate Adviser  
PSG Capital



Legal Advisor  
Cliffe Dekker Hofmeyr

