

## **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**”)



**SPEAR**  
**REIT LIMITED**

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## **DISPOSAL OF DOUBLETREE BY HILTON, CAPE TOWN; VOLUNTARY OPERATIONAL UPDATE AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

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### **1. INTRODUCTION**

1.1. Shareholders are advised that on 15 November 2021 (“**Signature Date**”), the Company, through its wholly-owned subsidiary Spear Holdco Proprietary Limited, entered into a sale of shares and claims agreement (“**Sale Agreement**”) with a consortium of entities, namely, Easy Shoes Proprietary Limited (“**Easy Shoes**”), Cloudberry Investments 18 Proprietary Limited (“**Cloudberry**”), Balkin and Co Proprietary Limited, the Trustees for the time being of the Riekie-Raai Beleggings Trust, the Trustees for the time being of the Selza Trust, the Trustees for the time being of the African Children’s Trust, the Trustees for the time being of the JGL Trust 2, Leonard Samuel Sank (together the “**Purchasers**”) and Upper East Side Hotel Proprietary Limited (“**UES Hotel**”), a wholly-owned subsidiary and the owner of the property comprising –

1.1.1. Section No. 29, Section No. 31 and Section No. 32 of the Upper East Side Sectional Title Scheme (“**Scheme**”), held by title deed ST7460/2012;

1.1.2. Section No. 30 of the Scheme, held by title deed ST11800/2014; and

1.1.3. Section No. 103, Section No. 104 and Section No. 105 of the Scheme, held by title deed ST14730/2015,

together with an undivided share in the common property in the scheme apportioned to the said sections, and includes the right to the exclusive use of the exclusive use areas in the Upper East Side Sectional Title Scheme (the “**Property**”).

1.2. In terms of the Sale Agreement the Company will dispose of 100% of the issued share capital of UES together with all claims of any nature whatsoever of the Company against UES on the Effective Date (as defined below) (“**Disposal**”), to the Purchasers for a disposal consideration as set out in paragraph of 4 below.

### **2. DESCRIPTION OF THE BUSINESS OF UES HOTEL**

UES Hotel is the owner and operator of the DoubleTree by Hilton Hotel in Cape Town and associated commercial sections of the Property linked thereto.

### **3. RATIONALE FOR THE DISPOSAL**

The Disposal is in line with management’s road map to reduce Spear’s loan-to-value (“**LTV**”) and is in accordance with Spear’s stated strategy to exit its hospitality assets in the short to medium term and to eliminate Spear’s exposure to variable income

producing properties with the aim to own only fixed income producing industrial, convenience retail and commercial assets in the Western Cape.

#### **4. DISPOSAL CONSIDERATION**

4.1. The disposal consideration is an amount equal to –

4.1.1. the agreed net asset value of UES Hotel, being the sum of R45 700 000;

4.1.2. minus (if the amount is positive) or plus (if the amount is negative) the difference between the face value of the loan indebtedness of UES to Nedbank Limited (“**Nedbank Loan**”) as at the Effective Date (as defined below) and the sum of R100 000 000;

4.1.3. plus (if the amount is positive) or minus (if the amount is negative) an amount equal to the networking capital of UES Hotel as at the Effective Date (as defined below).

(“**Disposal Consideration**”).

4.2. The Disposal Consideration will be provisionally determined by the Company prior to the closing date, being 1 February 2022 (“**Closing Date**”), based on *pro-forma* financial information of UES Hotel as at the Effective Date (as defined below) (“**Provisional Disposal Consideration**”). The Provisional Disposal Consideration shall be paid by the Purchasers to the Company in cash on the Closing Date.

4.3. The Disposal Consideration will be finally determined after the Closing Date, based on the financial statements of UES Hotel as at and in respect of the financial period up to the Effective Date (as defined below). If the Disposal Consideration is determined to be more than the Provisional Disposal Consideration, the Purchasers shall pay the difference to the Company, provided that the final Disposal Consideration shall not exceed R60 000 000. If the Disposal Consideration is less than the Provisional Disposal Consideration, the Company shall pay the difference to the Purchasers.

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

The Disposal Consideration will be applied by the Company to reduce its debt, which is in line with management’s stated strategy to reduce the Company’s LTV.

#### **6. CONDITIONS PRECEDENT**

All conditions precedent to the Disposal have been fulfilled and/or waived, as the case may be and the Disposal has become unconditional in accordance with its terms.

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

The effective date of the Disposal is anticipated as being 1 February 2022 (“**Effective Date**”).

#### **8. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT**

8.1. The Sale Agreement contains warranties and indemnities by the Company in favour of the Purchasers which are standard for a transaction of this nature.

8.2. The Company has agreed to guarantee the net income to be earned in respect of the Property for a period of 12 months commencing on the Effective Date (“**Income**”).

**Guarantee Period**") so as to ensure that the expenses incurred by the Purchasers in respect of the rental enterprise business conducted by UES Hotel on the Property ("**Business**"), do not exceed the income earned during such period, and that a "break-even" position is therefore guaranteed ("**Net Income Guarantee**").

- 8.3. The amount of the Net Income Guarantee is capped in the sum of R13 531 608 ("**Income Guarantee Cap**").
- 8.4. To the extent that the expenses incurred by the Purchasers in respect of the Business exceeds the income earned so that a "break-even" position is not achieved, the Company undertakes to pay the Purchasers the amount of the shortfall, provided that the sum of all amounts paid by the Company does not exceed the Income Guarantee Cap.
- 8.5. In the event that the aggregate net income of the Property during the Income Guarantee Period exceeds the "break-even" position, the Purchasers shall pay to the Company an amount equal to one third of such excess.
- 8.6. The Company's obligations in terms of the Net Income Guarantee shall cease immediately (but not with retrospective effect) upon the Purchasers resolving to cease utilising the Property for the purposes of operating a hotel, or upon the Purchasers taking steps to change the use of the Property, whichever is the earlier.
- 8.7. In addition to the various sectional title units referred to in paragraph 1.1 above comprising the Property, UES Hotel, as at the Signature Date, also owns certain other sections and exclusive use parking bays in the Scheme ("**Excluded Units**") which have been sold by UES Hotel to the Company in terms of a sale agreement concluded between UES Hotel and the Company on 13 October 2021 ("**Excluded Units Sale Agreement**"). The Excluded Units Sale Agreement has been implemented in accordance with its terms save for the registration of the transfer of ownership of the Excluded Units into the name of the Company. The Purchasers undertake, at the cost of the Company, to ensure that the transfer of ownership of the Excluded Units will be registered in the name of the Company as soon as possible after the Closing Date.

## 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>)</b>	<b>Weighted Average Gross Rental / m<sup>2</sup></b>
Doubletree by Hilton, Upper East Side, 33 Brickfield Road, Salt River	Cape Town	Hospitality	11,385	R0
5 <sup>th</sup> & 6 <sup>th</sup> Floor Offices, Upper East Side, 33 Brickfield Road	Cape Town	Office	1,209	R123

## Notes:

- a) The weighted average gross rental of R123/m<sup>2</sup> per month for the 5<sup>th</sup> and 6<sup>th</sup> floor offices as stated above, includes a gross rental guarantee of R126/m<sup>2</sup> per month over the vacant offices (756m<sup>2</sup>). Currently, 336m<sup>2</sup> of office accommodation is occupied by third-party tenants. The weighted average gross rental for the offices, excluding the rental guarantee over the vacant portion, is R168/m<sup>2</sup> per month.
- b) In addition to the Disposal Consideration, the costs associated with the Disposal are estimated at R500 000. No finder's fee, brokerage, agents' commission or similar compensation is payable in respect of the Disposal.
- c) In determining the Disposal Consideration, the value of the Property is considered to be its fair market value. The valuation of Doubletree by Hilton was determined by an external valuer, Mills Fitchet Magnus Penny. The valuation of the 5<sup>th</sup> and 6<sup>th</sup> floor offices was 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

- 10.1. As at 31 August 2021, being the date of the published unaudited interim financial statement of UES Hotel, the value of the net assets attributable to UES Hotel excluding the value of the net assets attributable to the Excluded Units, was R48 798 657.
- 10.2. The unaudited loss after tax attributable to UES Hotel for the six month ended 31 August 2021, was R61 629 335, based on the published unaudited interim financial statements of UES Hotel for the six-month period ending 31 August 2021, which were prepared in terms of IFRS.

## 11. VOLUNTARY OPERATIONAL UPDATE

### 11.1. As at the Signature Date –

- 11.1.1. the rental collections for the year-to-date is 97%, reflecting an improvement and trend to pre Covid-19 levels; and
- 11.1.2. the portfolio vacancy rate has declined from 7.21% to 6.28% due to numerous office and industrial lease agreements being concluded post Spear's HY2022 interim results presentation.

### 11.2. As a result of the Disposal –

- 11.2.1. the LTV of Spear and its subsidiaries ("**Group**") will reduce by 172 basis points as disclosed on page 28 of the unaudited consolidated interim financial results of the Company for the 6-month period ended 31 August 2021; and
- 11.2.2. the Group finance costs will reduce by R6 900 000 for the 12-month period following the implementation of the Disposal; and
- 11.2.3. the fixed debt ratio will increase from 55.16% to 58.56% with a weighted average period of 32 months.

- 11.3. The interest cover ratio has consistently improved to 2.17 times as at the date of this announcement.

11.4. Shareholders are advised that the information in this paragraph has not been audited, reviewed or otherwise reported on by the Company's external auditors.

## 12. CLASSIFICATION OF THE DISPOSAL

12.1. In terms of the JSE Limited Listings Requirements, Easy Shoes and Cloudberry, which form part of the consortium of entities comprising the Purchasers are "related parties" of the Company by virtue of the fact that Easy shoes is an associate of Mike Naftali Flax and Cloudberry is an associate of Abubaker Varachhia. Both Mike Naftali Flax and Abubaker Varachhia are directors of the Company.

12.2. As the Disposal Consideration is more than 0.25% but less than 5% of the Company's market capitalisation as at the Signature Date, the Disposal will constitute a small related party transaction, which requires the appointment of an independent expert to compile a fairness opinion on the Disposal in terms of paragraph 10.7(b) of the JSE Limited Listings Requirements to confirm that the Disposal is fair as to shareholders of the Company.

12.3. The directors of the Company have appointed PSG Capital Proprietary Limited ("**Independent Expert**") as the independent expert to compile the required fairness opinion on the Disposal ("**Fairness Opinion**"). The Independent Expert has considered the terms and conditions of the Disposal and is of the opinion that the terms and conditions of the Disposal are fair to the shareholders of the Company. The JSE Limited has confirmed that the Fairness Opinion complies with the required disclosure pursuant to the Listings Requirements. A copy of the Fairness Opinion is available for inspection at the Company's registered office for a period of 28 days from the date of this announcement.

## 13. WITHDRAWAL OF CAUTIONARY

13.1. Shareholders are referred to the Company's cautionary announcement released on SENS on Wednesday, 10 November 2021.

13.2. Shareholders are hereby advised that as the particulars of the Disposal has now been announced, caution is no longer required to be exercised by shareholders when dealing in the Company's securities.

Cape Town  
15 November 2021

Sponsor and Corporate Adviser  
PSG Capital



Legal Advisor  
Cliff Dekker Hofmeyr

