

# Spear REIT Limited sees exceptional asset growth

According to JSE listed Spear REIT Limited's interim results for the six months ending 31 August 2017, the company has added in excess of R1.4 billion of new acquisitions to the Western Cape-focused portfolio and is on target to meet their revised full-year dividend guidance. The company, which listed on the Johannesburg Stock Exchange (JSE) in November last year, is the only regionally specialised REIT on the JSE and has declared a dividend of 36.95 cents per share.



Image Source: [Spear REIT Limited](#)

Spear's current property portfolio consists of 31 high-quality Western Cape assets with an average value per asset of R87.5m. The portfolio's income stream is underpinned by average contractual escalations of eight percent. "Portfolio vacancies remain at levels well below national averages for commercial, industrial, retail, residential and hospitality assets," said CEO Mike Flax.

The year to date has seen exceptional asset growth for Spear, with new acquisitions in excess of R1.14bn in the Western Cape. "These transactions resulted in Spear close on doubling our asset base and market cap from R942m in February 2017 to R1.7bn currently."

Spear's focus over the interim period has been to incorporate the newly acquired assets into the property and asset management platforms.

## Industrial

The industrial sector has performed in line with management's expectations during the interim period with occupancy at 99.95%. The largest asset in the industrial portfolio is the newly acquired R400m Mega Park in Bellville Industria.

## Commercial

The commercial sector performed to management's expectations and occupancy was at 95.53% for the reporting period. "Office sector lease renewals continue to be concluded successfully with upward rental reversions seen in the majority of renewals concluded. Management will continue an aggressive and targeted letting campaign to fill office vacancies. The largest property in our commercial portfolio is 2 Long Street, in the heart of Cape Town's bustling CBD."

## Retail

Despite tough trading conditions, having 40% of retail space occupied by nationals allowed Spear to keep occupancy at 98.49% for the reporting period. “Spear’s retail assets continued to perform well and we believe the decision to only expose the business to the convenience retail sector has shielded us from the retail slowdown experienced in larger retail assets across the country,” Flax said.

## **Residential**

Spear’s residential portfolio had a 100% occupancy rate. “Currently only three of our properties are exposed to the residential sector and we intend to increase the residential holdings closer to 15% in the medium term, through the development of approximately 200 residential units at Sable Square.”

## **Hospitality**

“The hospitality sector over the interim period has come under pressure by the contracting economy and the dependence on the domestic travel market during winter.”

DoubleTree by Hilton, despite challenging economic conditions, has shown an eight percent relative share penetration on its competitor set. Management controllable profit is up 29% year-on-year with confirmed reservation prospects during the coming season to help claw back any underperformance.

“15 on Orange, operated and leased by Marriott International, has been part of the Spear portfolio for three months. Management has been working closely with Marriott to improve the hospitality experience at the hotel and seek innovative interventions to reduce the carbon footprint of the hotel,” Quintin Rossi, managing director of Spear REIT Limited said.

“Income forecasts for the interim period have been met at rental level and we are confident that the full-year income forecast is in line with guidance. The first 12 months of ownership is underpinned by a rental income guarantee.”

## **Increasing exposure to high-quality assets within the Western Cape**

Spear REIT Limited has also taken transfer of Tyger Manor Convenience Centre, located on Durban Road. “The property fits our investment strategy of increasing exposure to high-quality assets within the Western Cape,” Flax said. In addition, Spear is in the process of taking transfer of the MWEB head office building in the N1 City Precinct. MWEB, having merged with Internet Solutions, is the country’s largest ISP provider

With the Western Cape experiencing a severe drought, Spear has sought out ways to preserve this scarce resource through water-saving initiatives which service the needs of tenants. “We continually seek to reduce our carbon footprint and have also implemented solar PV solutions across the portfolio where viable.”

Flax said he believed the positive results spoke to Spear’s focus, active asset and property management along with prudent financial management. “Growing cash flows and continual dividend growth will remain a primary Spear objective.”

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