Delta Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/005129/06)
Share code: DLT   ISIN: ZAE000194049
("Delta" or "the Fund" or "the Group")
(REIT status approved)

Reviewed provisional condensed consolidated results
for the year ended 29 February 2020

- Full year distributable earnings of 45.69 cents per share
- Cash generated from operations of R452.7 million
- Disposal of non-core assets totalling R153.5 million
- Extended R3.8 billion in expiring debt facilities
- Renewed 211 764m2 expiring leases
- Concluded 17 344m2 new leases

Commentary

Financial results

Delta's full year distributable earnings declined 38.1% to 45.69 cents per share (2019: 73.84 cents per share), primarily due to rental reversions on leases renewed, increased vacancies within a challenging economy and corporate tax payable on earnings retained. Net asset value per share declined 11% to R8.28 (2019: R9.30) and was negatively affected by the fair value adjustment to investment properties.

The Board of directors of Delta ("the Board") have taken a decision not to declare a final dividend for the six months ended 29 February 2020 after carefully considering the forecast solvency and liquidity requirements of the Group in light of market uncertainty as a result of the COVID-19 pandemic and the contractual capital expenditure.

Net property income decreased by 9.6%, largely as a result of rental reversions on leases renewed and increased vacancies. On a like-for-like basis this translated into net property income declining 8.5% compared to the prior year. The increased vacancies contributed to certain fixed costs not being recoverable, thereby increasing the gross cost to income and net cost to income ratio to 34.8% and 20.7% respectively.

Administrative expenses decreased by 6.8%, primarily due to lower asset management fees based on Delta's reduced share price. On a normalised basis, administrative expenses decreased 9.9%, which excludes the expected credit loss allowance raised on loans receivable. The Group's total cost to income ratio including administration costs increased to 39.8%.

Finance costs increased by 3.9% mainly due to higher interest rates during the year under review and debt structuring fees on facilities that were extended. The combined 250 basis points reduction in interest rates between March and May this year will translate into a significant reduction in finance costs on the unhedged portion of the Group's interest-bearing borrowings of R3 billion.

Interest income decreased by 11.6% due to the settlement of loans owing to the Group. Dividend income from Grit Real Estate Income Group Limited ("Grit") remained flat primarily due to the weakening of the rand during the year.

Property portfolio

Delta's property portfolio is valued at R10.6 billion and consists of 102 properties with a total GLA of 928 531m2. The full portfolio was valued by external independent valuers of which 42% were formal valuations and 58% were desktop valuations.

Acquisitions and disposals

Delta did not conclude any acquisitions during the year under review. Significant effort was focused on renewing leases. The disposal of Classic Corner and Top Trailers Site 1 was completed during the period for a total consideration of R49.1 million, with proceeds utilised to settle debt. Protea Coin Cape Town, with a total GLA of 5 700m2 and a fair value of R10 million is expected to transfer by June 2020. Broadcast House transferred post the reporting date in March 2020.

Despite the current and future market uncertainty and a challenging economic environment, management will continue with its disposal programme relating to the existing R1.3 billion non-current assets held for sale.

Major capital projects

In response to low economic growth forecasts tenants are increasingly reviewing their real estate needs. Industry trends show large corporates, banks and state-owned enterprises are giving back space or opting to negotiate for rental reductions and space consolidation on reduced escalations and no onward charges of rates and taxes, with landlords obligated to fully service the leased premises.

Key to Delta's bulk lease renewal programme was the contractual commitment to tenant installations and capital expenditure on outstanding compliance matters in the portfolio.

To fulfil its contractual obligations, the Group has committed an investment of approximately R200 million per annum in defensive capex and regulatory health and safety upgrades over the next three financial years. The successful completion of this capex programme will coincide with the commencement of lease renewals on almost 40% of the bulk lease portfolio and is expected to support negotiations.

Letting and vacancies

The lease expiry profile of the portfolio at 29 February 2020 was as follows:

Segment (GLA per m2)	Vacant	Month-to-month	29 February 2021	28 February 2022	28 February 2023	29 February 2024	28 February 2025	Beyond 28 February 2025	Total
National government		128 427	47 091	17 967	40 784	21 268	56 706	-	312 243
Provincial government		52 573	26 822	2 102	1 876	-	11 795	-	95 168
Local government		25 131	16 323	-	13 828	-	-	-	55 282
State-owned enterprise		2 065	50 135	23 038	7 824	2 834	18 956	-	104 852
Office - sovereign		208 196	140 371	43 107	64 312	24 102	87 457	-	567 545
Office - other		23 953	35 985	14 156	14 015	410	3 984	9 194	101 697
Retail		9 324	6 278	16 476	9 579	2 279	2 447	13 404	59 787
Industrial		-	4 265	-	-	-	-	-	4 265
Vacant buildings	195 237								195 237
	195 237	241 473	186 899	73 739	87 906	26 791	93 888	22 598	928 531

Vacancies in the Group's dominant nodes in the Pretoria and eThekwini CBDs are 10.4% (2019: 8.5%) and 17.6% (2019: 16.9%) respectively. The portfolio vacancies decreased to 19.8% post financial year-end due to the re-tenanting of three new provincial leases in Capital Towers. Ninety percent of our tenant base was retained despite tough trading conditions and increased competition in the sovereign leasing space.

We continue to make significant progress on our national government bulk lease renewals with 83 134m2 of the expiries consisting of three major leases in two buildings that are at an advanced stage of being concluded. The remaining 45 293m2 largely comprises default leases that have exit clauses which essentially renders them three-month leases. We are engaging with the National Department of Public Works to remove this clause so that we can finalise the lease renewals.

The provincial government leases are concentrated in the Bloemfontein and Polokwane nodes. Three Polokwane-based leases accounting for 34 401m2 are at an advanced stage of being concluded. Although vacancies have stemmed, the Bloemfontein node remains a challenge and we continue to engage with the respective departments. On the local government portfolio we have re-tendered to the existing tenant for 21 339m2 and remain confident that this will be successfully finalised by August 2020.

Funding
Interest-bearing borrowings decreased by 4.5% due to settlement of debt from the disposal of non-core properties and investments amounting to R153.5 million and amortisation of bank facilities of R129.8 million. The Group has no current exposure to the debt capital markets and has made significant progress in respect of extending and refinancing its expiring debt facilities, with negotiations as follows:
- Restructuring Investec Bank's property facilities into a portfolio A and B facility of R380.8 million and R352.9 million respectively, effective from June 2020. Portfolio A comprises assets with shorter-term leases and higher vacancies for a 12-month period and amortised to a residual of R333 million. Portfolio B has a longer weighted average lease profile with a maturity term of 36 months and no amortisation.
- Extending R2.3 billion in expiring facilities with Nedbank for a period of three months to 31 August 2020 on the existing terms and conditions. This allows the Group the opportunity to conclude the remaining bulk lease renewals, thereby placing the Fund in a stronger position for longer-term debt and more competitive pricing.
- Refinancing of R464 million in expiring facilities with Standard Bank for a 12-month period from June 2020 and extending a R300 million facility to October 2020.

The conclusion of longer-dated facilities will term-out the current average debt expiry period of 0.5 years which has declined from prior years due to the passage of time and short-term extensions. The weighted average cost of debt increased marginally from 10.2% to 10.3%, with an interest cover ratio ("ICR") of 1.9. The ICR is below the contractually agreed cover of two times and have been condoned by lenders, as the Company expects its position to normalise in the 2021 financial year.

Prospects
At the time of writing, the world economy is in the precarious position of trying to find a "new normal" in the aftermath of COVID-19 pandemic with volatility impacting on stock markets globally.

The efforts by South Africa's government to curb the spread of the virus and the quantum of the stimulus package announced to support economic recovery is highly commendable, although the fluid nature of the pandemic may yet continue to lead to uncertainty and further lockdowns as the infection rate from the virus is currently expected to peak only in September 2020.

It remains too early to quantify the full impact of COVID-19 on the Group's portfolio, however, collections have remained robust. The Group has collected more than 80% of its monthly billings for April and May this year and expects to collect a further 10% once its sovereign tenants return to work after the lockdown. There is a risk associated with our retail and non-government tenants of approximately 10% of monthly billings, and we continue to engage on an individual basis with these tenants to assist were possible to ensure their sustainability.

Delta's successful renegotiation of leases during exceptionally challenging times have secured longer lease terms and higher quality of earnings. The long-term leases will improve the Group's credit profile and enable the conclusion of longer-term facilities at reduced pricing, which will improve both the cash flows of the business and the health of the balance sheet.

The reduction in interest rates between March and May this year will translate into a significant reduction in finance costs on the unhedged portion of our interest-bearing borrowings, however, it is anticipated that the reversions on rentals to secure long-term leases and the impact of COVID-19 on the Fund's retail and non-government portfolio will negate the positive impact of lower interest rates.

Our focus remains on managing the sustainability of the business through balance sheet optimisation, tenant retention and the execution of contractual capex commitments, within the context of a severely constrained economy and the fluidity of the potential impacts as a result of COVID-19.

This information has not been reviewed or reported on by Delta's auditors.

Final dividend ("the cash dividend")
Delta is a listed REIT and is required to pay at least 75% of its distributable earnings to shareholders, subject to

the relevant solvency and liquidity requirements set out in section 46 of the Companies Act No 71 of 2008. Shareholders are advised that the Board has applied the solvency and liquidity test and has resolved not to declare a final dividend for the six months ended 29 February 2020 after concluding that although the solvency requirements have been met, the liquidity requirements post the payment of a dividend and the planned capital expenditure programme cannot be met.

Short form announcement
This announcement is a condensed version of the full announcement in respect of the year-end results announcement for the full year ended 29 February 2020 and as such it does not contain the full or complete details pertaining to the Group's results. Any investment decisions should be made based on the full announcement. The full announcement has been published on the JSE News Service (SENS) at https://senspdf.jse.co.za/documents/2020/jse/isse/DLT/ye2020.pdf and can be found on the Group's website (www.deltafund.co.za).

This condensed announcement is the responsibility of the Board of directors of Delta and has been approved by the Board of directors. The full announcement is available for inspection at the registered office, during business hours, at no charge and any requests to the Company Secretary for copies will be dealt with by referring the requester to the appropriate link on the Company's public website under the Investor Relations tab.

By order of the Board

JB Magwaza	SH Nomvete
(Chairman)	(Chief Executive Officer)

12 June 2020

Directors: JB Magwaza^ (Chairman), SH Nomvete* (CEO), S Maharaj* (CFO), ON Tshabalala* (COO), N Khan~, DN Motau^, ID Macleod^, MJN Njeke ^#, NN Afolayan^, MCR Rampheri^, M de Lange^
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Transfer secretaries: Computershare Investor Services Proprietary Limited

Sponsor: Nedbank Corporate and Investment Banking

www.deltafund.co.za