OUR MAIDEN PERFORMANCE

CEO'S REPORT

November 2015 marked an historic milestone for Stor-Age as the business transitioned from a group of private companies to become South Africa's first JSE-listed self storage REIT. While Stor-Age had successfully been trading for close to a decade, the listing brought to market a low-risk income paying specialist REIT and successfully introduced a new property sector asset class, fulfilling a long term strategic goal of the founding management team.

With the benefit of hindsight, the last quarter of 2015 turned out to be an interesting time to list. Our JSE debut was followed by possibly one of the most volatile December trading periods in South Africa's history and then intense global market volatility on reopening after the year-end break. Despite this, I am pleased to report that appetite for our stock remained robust with the backing of our widespread institutional shareholders.

Stor-Age pioneered the development in South Africa of high profile, multi-storey 'Big Box' self storage properties in upmarket locations in 2009. Since opening our first property in 2006, our entrepreneurial management team with its in-depth understanding of the property and self storage markets has proven an ability to manage and grow the business in different markets and varying economic cycles. The team has a strong track record of developing new properties and acquiring and integrating trading stores, while managing the portfolio to achieve ambitious strategic goals.

Our sector leadership in South Africa is evidenced in our status as top self storage operator by lettable area, number of properties, number of tenants and value, and exceptional geographic representation.

“Stor-Age pioneered the development in South Africa of high profile, multi-storey 'Big Box' self storage properties in upmarket locations.”

WHY SELF STORAGE

Self storage is the direct response of the built environment to the needs of society and represents an exciting growth sector, not just in South Africa and similar emerging markets, but across first world markets such as the US, Australia and the UK.

The built environment evolves over time in direct response to the needs of society, office skyscrapers, the US retail mall concept and a decentralised suburban business park are all examples of this.

Capitalism has ushered in an era of consumerism (consumption-led economies) and at the same time people's living and working spaces are continuously becoming more efficient. People also place an extremely high value on their personal possessions. For our residential customers (approximately 80% of our tenant base), each life-changing event drives a need for the product of self storage. Businesses (approximately 20% of our tenant base), typically SMEs, are attracted to the flexible nature of the product based on size and the lease period.

“Our sector leadership in South Africa is evidenced in our status as top self storage operator by lettable area, number of properties, number of tenants and value, and exceptional geographic representation.”

CEO'S REPORT (continued)

We are fortunate to have an exceptional team of highly committed and passionate individuals who work to build on the legacy of the family business that lies at the heart of our company.

OUR PERFORMANCE

We are pleased to report strong maiden results for the 4.5 months from listing date to March 2016, ahead of our listing forecasts. Our total shareholder distribution of R38.906 million translated into a distribution per share of 30.07 cents, being 4.7% ahead of the forecast 28.72 cents.

Given the prospect of an upward sloping US treasury interest rate cycle in 2016 and into the medium term and the resultant impact on the REIT sector, we took the decision at listing to conservatively reduce our gearing levels. We currently have R119 million of net debt representing a gearing level of 8.7%. Of this, 84% is hedged at 9.65% for a period of almost three years. We still have capacity to drawdown on a further R521 million of our current debt facility with Nedbank Limited.

The performance of the business remains highly resilient, driven by self storage sector fundamentals. 'Need' will always motivate demand both in a healthy economic environment and in economic downturns. Despite the economic environment, people still go through life-changing events and businesses still require space on a flexible basis, even if for downscaling purposes.

Our total shareholder distribution of R38.906 million translated into a distribution per share of 30.07 cents, being 4.7% ahead of the forecast 28.72 cents.

GROWING OUR PROPERTY PORTFOLIO

SOUTH AFRICA

Stor-Age seeks investment opportunities where we can achieve strong market penetration, leverage and further benefit from our economies of scale, enjoy limited competition and produce high operating margins. Our property growth strategy, while aggressive in its targets, is tempered with a commitment to high quality self storage assets. We believe that in focussing on assembling a portfolio at the quality end of the spectrum, we will not compromise the sustainability of our business by chasing short term growth targets.

We plan to grow through a combination of acquisitions of existing self storage properties from third parties (directly into Stor-Age) and developing new self storage properties. Given the limited supply of prime self storage properties in our primary urban and suburban target nodes in South Africa's major cities, the development of new self storage properties forms a significant focus.

INTERNATIONAL

We have spent much time in the more developed self storage markets of the US, Australia and the UK since 2007 with the principal objective of learning from these markets to assist us in rolling out our business plan in South Africa. Our insights also stem from our deep peer networks of medium to large scale self storage operators in these markets.

Given that self storage is still a young and developing market even in these first world countries, we believe that an opportunity to enter one or more of these markets may transpire. We have identified that it would be critical for us to enter through an existing and well established operator.

OUR PEOPLE

Our people and our ability to manage the portfolio off a sophisticated, decentralised platform – a platform which recognises the transition from enquiry to customer to client, and staff who can build relationships with their clients – are critical to our long term success. Our distinct non-hierarchical structure with fully accessible management endeavours to reward everyone for their contribution to our success. We are fortunate to have an exceptional team of highly committed and passionate individuals who work to build on the legacy of the family business that lies at the heart of our company.

Our strong performance for the year was in large part attributable to the efforts of our loyal and quality staff. Our people remain pivotal to the achievement of our strategic objectives and we strive to ensure that we recognise this internally.

OUTLOOK

Our current five year growth plan, currently in its first year, sets broad targets but more importantly details the strategic plan of both 'how we are going to do it' and 'where we intend doing it'.

There is no doubt that South Africa is in the midst of a tough economic environment. However, with the benefit of a core product which has traditionally been highly resilient in challenging trading conditions and a conservatively geared and interest-rate hedged balance sheet, Stor-Age is well placed to withstand the tough economic headwinds blowing through the South African economy at present, as well as global macro-economic volatility.

On the back of a highly successful listing late last year, operating in an under-supplied growth sector and delivering an attractive set of results for the reporting period, Stor-Age is well positioned to move forward in a sustainable manner. We are excited about the future of Stor-Age and strongly believe in the growth potential of our business.

Gavin Lucas
CEO
13 June 2016

"Our entrepreneurial management team with its in-depth understanding of the property and self storage markets has proven an ability to manage and grow the business in different markets and varying economic cycles."

FINANCIAL REVIEW

Stor-Age was incorporated on 25 May 2015 and on 16 November 2015 the company's shares were listed and began trading on the JSE. The listing was implemented simultaneously with the acquisition and amalgamation of various self storage interests. The results reflect the trading results of the business for the 4.5 months from listing to year end on 31 March 2016, with key indicators coming in ahead of the listing forecasts set out in the prospectus.

A storage unit is rented to a customer on a month-to-month basis with a minimum one month term. The rental agreement continues indefinitely until the customer provides notice of termination. Although rental agreements are short term in nature, the average length of stay for existing customers was 20 months as at 31 March 2016. For storage facilities open more than five years, the average length of stay increased to 24 months. For all customers who moved out of the business during the full 12 month period ended 31 March 2016, the average length of stay was 13 months. This reflects a loyal and 'sticky' customer base. 15% of our customers by occupied space have been storing for over three years and a further 35% have been storing with us for between one and three years.

Self storage is a dynamic business, and in any month, customers move in and move out resulting in changes in occupancy and the average rental rate. The churn rate – the percentage of customers moving out each month – is approximately 5 – 6% and although this may vary between properties, it is generally consistent across the portfolio.

FINANCIAL RESULTS

The table below summarises Stor-Age's underlying results of operations for the reporting period compared to the forecasts set out in the prospectus:

Property revenue comprises rental income and other income.

Rental income for the reporting period amounted to R54.9 million in line with our forecast projections, and included an amount of R1.6 million relating to the rental warranty as disclosed in the prospectus. The warranty related to an undertaking provided by the former shareholders of Roeland Street Investments Proprietary Limited (which became a wholly owned subsidiary of the company on listing) to lease space from the company on the basis of overall portfolio occupancy of 90%. The rental warranty utilised during the reporting

	Actual R'000	Forecast R'000
Property revenue	56 900	56 295
Rental income	54 907	54 907
Other income	1 993	1 388
Direct property costs	(12 996)	(12 980)
Net property operating income	43 904	43 315
Management fees	4 946	4 658
Administration costs	(9 066)	(9 000)
Operating profit	39 784	38 973
Interest income	4 118	3 535
Interest expense	(4 996)	(10 986)
Distributable earnings	38 906	31 522
Distribution per share (cents)	30.07	28.72

period was R1.6 million lower than forecast and, at 31 March 2016, a further R4.4 million was available to be used for future periods.

Excluding the rental warranty, rental income amounted to R53.3 million, 3.1% higher than the forecast projection set out in the prospectus and was underpinned by continued strong demand.

Rental income is a function of occupancy – the amount of space let to individual customers – and the rental rate charged for each unit.

The Listing Portfolio occupancy increased from 151 777 m^2 (as disclosed in the prospectus) to 155 700 m^2 at 31 March 2016, an increase of 3 923 m^2. This translates into a closing occupancy of 86% at year end. Certain properties in the portfolio are in the final stages of their lease-up and their growth in occupancy in the reporting period was in line with original forecasts. The average rental rate for the reporting period was R75.4/m^2, increasing 11.4% on an annualised basis from R72.60/m^2 as disclosed in the prospectus to R76.30/m^2 at year end.

Other income comprises ancillary income such as the sale of merchandise (e.g. packaging materials and padlocks), administration and late fees and other sundry income such as parking and income received from advertising billboards.

Direct operating costs comprise principally store-based staff salaries, rates, utilities, a full allocation of the marketing spend and other property related costs such as insurance, maintenance, IT and communications at a property level. The cost-to-income ratio is 22.8% and the spend for the reporting period is aligned with our prospectus forecasts. We remain focused on managing costs tightly.

Management fees comprise:

- Property management and asset management fees charged on the Managed Portfolio; and
- Acquisition and development fees charged on the development of new self storage properties.

These fees are marginally higher than forecast due to strong trading in the underlying properties for the period under review and development activity taking place earlier than anticipated. Administrative expenses relate mainly to support function costs for IT, finance, HR, property management, professional fees and directors' remuneration. These costs are broadly in line with forecast expenditure.

A dividend of 30.07 cents per share was declared, 4.7% higher than forecast in the prospectus.

DPS (Dividend Per Share) has been adopted as a measure for trading statements.

CAPITAL STRUCTURE

On listing, the company issued 139 404 002 shares at R10 per share raising total capital of R1.394 billion. R1 billion of the capital raised via the placement of shares was applied to settle debt at listing and R394 million was applied to settle vendor transactions as set out in note 21 of the financial statements. The board's policy is to have approximately 80% of total borrowings fixed. In November 2015 and March 2016, we entered into interest rate swap agreements for notional amounts of R75 million (fixed rate 9.52%) and R25 million (fixed rate 10.07%), respectively, both with a maturity date of 30 November 2018.

At 31 March 2016 the company's total borrowings amounted to R129 million with 78% (84% on a net debt basis) subject to fixed rates and total undrawn borrowing facilities of R521 million. The effective interest rate was 9.39%. The undrawn facilities provide sufficient headroom to fund potential acquisitions and growth in the short to medium term.

Net debt stood at R119 million at 31 March 2016. Given the negative outlook for interest rates over the medium term, the board strategically raised additional equity at the time of listing to reduce gearing to approximately 10%. Stor-Age currently has a conservative debt structure and a gearing ratio of 8.7% at 31 March 2016. The group is highly cash generative and surplus cash flow is placed in an annex facility linked to our borrowings or in short term money market accounts.

Net asset value per share at 31 March 2016 was R9.90 and the net tangible asset value per share at 31 March 2016 was R9.31.

INVESTMENT PROPERTIES

Investment property increased from R1.313 billion (1 October 2015 valuation including lease premiums) to R1.371 billion at 31 March 2016. The fair value adjustment to investment properties was R13.4 million and improvements amounted to R44.6 million. All properties in the Listing Portfolio were reviewed and valued independently by Mills Fitchet Magnus Penny (a registered valuer) at 31 March 2016. Further details of the basis of valuation are set out in note 3 of the financial statements and a summary of the portfolio is set out on pages 105 – 107.