

TOWER PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2012/066457/06)

JSE share code: TWR ISIN: ZAE000179040

(Approved as a REIT by the JSE)

(“Tower” or the “company”)



ACQUISITION OF MAJORITY OF SECTIONS OF SUNCLARE OFFICE BLOCK

Introduction and rationale

Shareholders are advised that Tower has concluded an agreement (the “**purchase agreement**”) for the acquisition of the property letting enterprise conducted in respect of sections 1, 2, 3, 4, 7, 8, 9 and 10 of the sectional title scheme known as Sunclare, commonly known as the Sunclare Office Block (the “**property**” or “**Sunclare Office Block**”), situated at the corner of Protea Road and Dreyer Street, Claremont, Cape Town (the “**acquisition**”) from HBW Group Proprietary Limited (the “**seller**”) for an aggregate purchase consideration of R192 878 200 (inclusive of VAT at zero percent).

Sunclare Office Block has a diverse mix of tenants and has enjoyed extremely low vacancy levels since its construction in the 1990s. The acquisition will provide Tower with a solid office building in one of Cape Town’s premier office nodes where vacancies are currently below 1%. The acquisition will also be yield-enhancing for Tower and will provide Tower with a good quality source of income.

Terms of the acquisition

Tower will acquire the property letting enterprise, which includes the property, with effect from the date of registration of transfer of the property into Tower’s name (the “**transfer date**”). The purchase consideration for the property letting enterprise will be payable in cash on the transfer date.

The acquisition remains conditional upon the approval of the Competition Authorities in terms of the Competition Act, No 89 of 1998.

The seller has provided Tower with a rental guarantee, indemnifying Tower against any shortfall in actual rental income (plus reasonable and market related tenant installations, commissions and VAT recovered) in respect of portions of the property which are vacant as at the transfer date for 24 months after the transfer date (the “**rental guarantee**”).

The purchase agreement includes undertakings, warranties and indemnities which are normal for an acquisition of this nature.

Property specific information

The property specific information required in terms of the JSE Listings Requirements in relation to the property, is set out below.

Property name and address	Sunclare Office Building, cnr Protea Road and Dreyer Street, Claremont, Cape Town
Sector	Office
Geographical location	Western Cape
Rentable Area (m²)	14 786
Weighted Average rental per m²	R105/m ²
Value attributed to the property	R192 878 200

No independent valuation has been carried out and the board of directors of Tower is of the view that the value attributed to the property above represents the value of the property acquired.

Categorisation of the acquisition

The acquisition is classified as a Category 2 transaction in terms of the JSE Listings Requirements. It is not subject to approval by Tower shareholders.

Financial effects

Set out below are the forecast revenue, net property income, net operating profit and distributable earnings of the acquisition (“**the forecasts**”) for the three months ending 31 May 2015 and the year ending 31 May 2016 (“**the forecast periods**”). The forecasts have been prepared on the assumption that the acquisition will be implemented on 1 March 2015 and on the basis that the forecasts include forecast results for the duration of the forecast periods.

The forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the directors of Tower. The forecasts have not been reviewed or reported on by independent reporting accountants.

The forecasts presented in the table below have been prepared in accordance with Tower’s accounting policies and in compliance with IFRS.

	Forecast for the three months ending 31 May 2015 R’000	Forecast for the year ending 31 May 2016 R’000
Contractual rental income	6 130	25 893
Straight-line rental income accrual	307	587
Revenue	6 437	26 480
Net property income*	4 564	18 451
Net operating profit#	4 323	17 486
Total comprehensive profit for the period^	(1 040)	2 033
Distributable earnings	226	1 738

* Includes the effects of straight-lining rental income

Includes the effects of asset management fees

^ Includes the effects of finance costs and fair value adjustment to investment properties

The forecasts incorporate the following material assumptions in respect of revenue and expenses that can be influenced by the directors of Tower:

- The forecasts are based on Sunclare Office Block only.
- Property operating expenditure has been forecast on a line-by-line basis based on management’s review of historical expenditure, where available, and discussion with the existing property manager.
- Contracted revenue is based on existing lease agreements and the rental guarantee including stipulated increases, all of which are valid and enforceable.
- Uncontracted revenue amounts to 0% of revenue for the duration of the forecast period.
- Leases expiring during the forecast periods have been forecast on a lease-by-lease basis, and have been assumed to renew at current market rates unless the lessee has indicated its intention to terminate the lease.
- The aggregate acquisition cost of R194.37 million (comprising the purchase consideration of R192.88 million and acquisition costs of R1.5 million). The purchase consideration is settled in cash funded from interest-bearing borrowings which are assumed to incur interest at an effective rate of 7.8% per annum. The acquisition costs are settled through cash on hand.

- The fair value of the building is assumed to equate to R192.88 million, the aggregate purchase consideration. Accordingly, a negative fair value adjustment of R1.5 million, equating to the capitalised acquisition costs, is recognised.

The forecasts incorporate the following material assumptions in respect of revenue and expenses that cannot be influenced by the directors:

- An effective date of acquisition of 1 March 2015.
- In terms of the asset management agreement with Tower Asset Managers Proprietary Limited (the “**manager**”), Tower will pay the manager a monthly fee equivalent to 1/12th of 0.5% of the market capitalisation over the last 3 trading days of each month, plus the borrowings of Tower at each month end.
- Tower will pay Spire Property Management Proprietary Limited for all property management services a monthly fee equivalent to 2.5% of gross monthly income collected (including VAT).
- There will be no unforeseen economic factors that will affect the lessees’ abilities to meet their commitments in terms of existing lease agreements.

16 January 2015

Sponsor

JAVACAPITAL

Legal advisor

