

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")



REVISED DISTRIBUTION GUIDANCE FOR THE YEAR ENDING 31 MAY 2017, TRADING UPDATE AND TRADING STATEMENT

Tower declared a total distribution of 92 cents per share ("cps") for the year ended 31 May 2016, and provided guidance of 6% distribution growth for the year ending May 2017, equating to a projected distribution of 97.5 cps for the year ending 31 May 2017. Circa 75 cps of the total distribution paid for the year ended 31 May 2016 comprised core earnings (being tenant rental income, less operating costs and cost of debt) and the balance of 17 cps included certain once-off earnings.

The 2017 distribution guidance similarly comprised core earnings of circa 81.5 cps and the distribution of once-off earnings of 16 cps to meet the guidance of 97.5 cps for the year ending 31 May 2017. The anticipated 2017 once-off earnings were to be realised through profits from the sale of newly constructed residential apartments at Napier Street (part of the Cape Quarter precinct) and certain non-core buildings currently held for sale.

Tower has had repeated engagements with major shareholders and has disclosed to the market in its various presentations that the reliance on once-off earnings is ultimately harmful to the generation of sustainable, growing returns. The company is of the opinion that capital realised and once-off earnings should be redeployed by the company to enhance distributable income on a sustainable basis rather than being distributed to shareholders. This is in line with the best practice recommendations released by the South African Real Estate Investment Trust Association. In the abridged results of the audited consolidated annual financial statements for the year ended 31 May 2016, released on SENS on 4 August 2016, Tower provided guidance that going forward, the company's key focus would be on the generation and growth of core earnings through the various initiatives within the company. In the short to medium term, this growth is expected to come primarily from asset management initiatives, including the realisation of additional lettable area in key properties like Cape Quarter, reinvestment of proceeds from the construction and sale of residential apartments at Napier Street, value uplift being experienced on the Croatian properties due to market movements, potential ring-fencing of the Croatian properties into a separate vehicle, cost savings due to the internalisation of the asset management company and continued operational expenditure savings due to the introduction of green technology in key properties.

Tower's core earnings are expected to grow between 8% and 10% for the year ending 31 May 2017 from the core earnings of circa 75 cps for the year ended 31 May 2016.

Therefore, Tower has revised its guidance for the year ending 31 May 2017 to a distribution of 80 cps to 82 cps which comprises core earnings only. On a rolled, 12-month forward basis, Tower anticipates a distribution of 84 cps to 86 cps. No once-off earnings will be paid out as a distribution in this period. Proceeds from sales of property and any other once-off events will be used to generate yield-enhancing rental income through acquisitions or to strengthen the group's balance sheet by reducing gearing and/or repurchasing shares given the share's attractive core earnings yield. Distribution guidance assumes no major tenant failures or large, un-planned vacancies, and has not been reviewed or reported on by the company's auditors.

TRADING UPDATE ON DISPOSALS, DEVELOPMENTS AND ADDITIONAL PROFITS

Tower anticipates additional, predominantly non-core profits of at least R240 million in the next 12 – 30 months through value add initiatives it is currently undertaking. These non-core profits will be used to repurchase Tower shares, reduce debt and invest in accretive acquisitions to boost core earnings. Assuming the full R240 million is re-invested at a 10% yield, this would add circa 7 cps to Tower's distributable income (however none of the initiatives below have been included in any forecast provided by the company). Amongst others, these initiatives are;

- at Cape Quarter, Tower is in the process of developing a minimum of 73 residential units. This development is phased and will come on stream from November 2017 onwards. Tower intends to dispose of all of the new residential units given the high demand for residential property in the area, with proceeds being used to improve core earnings rather than distributing capital profits to shareholders.
- the disposal process of seven, non-core properties is ongoing. The group expects to achieve aggregate sale proceeds of more than R450 million which will be utilised to reduce gearing and repurchase Tower shares, if appropriate. The repurchase of Tower shares is accretive to the group's earnings at the current share price and the company will engage in this prudent capital management whilst this opportunity exists.

- Tower is in the process of refinancing its European debt which we believe will reduce interest expense in the company as well as reduce the amount of capital required for the repayment of bank loans (as European loans tend to be amortising loans rather than the interest only loans offered by South African banks).

Establishment of a new vehicle for Tower`s Croatian portfolio

- Subject to obtaining regulatory approvals, Tower is considering spinning off its Croatian properties into a new vehicle purely focussed on European properties to allow for investment by investors who have expressed interest in investing in such a vehicle. Tower will retain control over the assets by holding a majority equity stake. Tower will initially control the company from a management perspective ensuring that it can leverage benefits to Tower through its existing relationships in the region. Local management will be employed as the business grows (Tower currently has an asset manager in Croatia and intends to continue to grow this team). A strong pipeline of high quality properties is available for this vehicle to acquire which will be accretive to the earnings in the vehicle.

TRADING STATEMENT

In terms of the JSE Listings Requirements, property companies are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported on next will differ by at least 15% from the financial results for the previous corresponding period.

Anticipated profits from the construction and sale of residential apartments at Napier Street and the various sales of non-core properties have been delayed and will not be realised in the current period. Construction has commenced on the residential apartments at Napier Street with occupation anticipated for late 2017.

Further to the above paragraph and due to the stated intention of only distributing core earnings, shareholders are advised that Tower expects that the distribution per share for the 6 months ending 30 November 2016 will be 38 to 39 cps, being 14% – 16% lower than the 45.2 cps for the 6 months ended 30 November 2015.

The financial results on which this trading statement is based have not been reviewed or reported on by Tower`s auditors.

The unaudited results for the six month period ended 30 November 2016 will be published on SENS on or about 31 January 2017.

Conclusion

Tower is an internally managed company with a high quality, well diversified portfolio with 30% of its assets outside of South Africa. Vacancies are low at 4%, the majority of debt is fixed, the company has strong local and international lease covenants with a weighted average lease expiry of approximately 5 years. Average asset sizes are in excess of R100 million with additional, material, non-core profits anticipated in the medium term, boding well for strong core earnings growth into the future.

11 January 2017

Sponsor

JAVACAPITAL