

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 AN INTEREST IN VMD KVART AND INTRODUCTION OF CROATIA STRATEGY

Introduction

Shareholders are advised that Tower has concluded an agreement (the “**purchase agreement**”) for the acquisition of part of the property letting enterprise conducted in respect of VMD KVART building B (the “**property**” or “**VMD**”), situated at Strojarska cesta 20, Zagreb, Croatia from VMD Grupa d.o.o (the “**seller**” or “**VMD Grupa**”) for an aggregate purchase consideration of EUR23 700 000 (the “**acquisition**”).

The acquisition has been concluded through Tower’s 100% held subsidiary, Tower Europe d.o.o (“**Tower Europe**”), a newly created company registered with the commercial court in Zagreb, Croatia.

Croatia Strategy

The acquisition is the first in Tower’s broader strategy of establishing an offshore European platform to seek out new markets that provide strong diversification opportunities through premium, high quality properties. Europe further offers a hedge against Rand weakness and includes numerous smaller markets where Tower can position itself as the leading participant in the territory.

Through its existing in-country relationships and following extensive research into the region, Tower selected Croatia as the first jurisdiction in its strategy based on the significant opportunities identified for potential value creation. While Croatia is currently recovering from the lows experienced following the global financial crisis of 2008, property prices and rentals have reduced considerably and are believed to have “bottomed out” from their previous highs pre-crisis. This shift presents a significant buying opportunity as rentals are anticipated to rise into the future as the economy grows (recent data has shown the country to be moving out of its recession into positive growth). Furthermore, Croatia has not yet seen notable economic benefit following its July 2013 inclusion in the Eurozone. This growth is expected to materialise as the country navigates towards joining the Euro currency union, possibly as early as 2020.

Compelling property opportunities have been identified in both the office and retail sectors in an investment climate that is pro foreign investment with a strong legal system and regard for property rights.

As part of embarking on this offshore venture, Tower has chosen the strongest possible partner in the region in VMD Grupa. VMD Grupa is a specialist developer based in Zagreb that has been operating since 1995 and is particularly well regarded in the larger Balkan region. Tower has elected for VMD Grupa to be its in-country property manager (through its subsidiary company, VMD Services) and equity partner in Tower Europe, with VMD Grupa acquiring a 20% interest in Tower Europe. Together with Tower’s partnership with VMD Grupa in this acquisition, Tower (through its current asset manager, Tower Asset Managers (Pty) Ltd), will be employing a local asset manager in Zagreb. The individual who has been offered the role is highly skilled, well networked and will be complimentary to Tower’s management of its offshore portfolio.

VMD

VMD is a newly built office tower (the tallest and newest office property in Zagreb), well situated adjacent to major bus and rail stations and alongside Ulica Grada Vukovara street, one block away from Zagrebačka aveniji, a major east west highway linking Croatia to other Balkan countries. The traditional CBD (shopping precinct and main town square) of Zagreb are located approximately three kilometres to the north, with the residential areas of Zagreb located across the Sava River to the south.

The acquisition consists of business premises situated on floors 10-18 and 20-25 of VMD KVART building B in Strojarska cesta 20 as well as 280 parking bays and approximately 253m² of storage space in the building's underground levels. Within the property, each floor is registered as a separate unit on an undivided share basis whereby Tower Europe would hold exclusive ownership of 15 of the building's 26 floors following the acquisition with a 12 month option from transfer date to acquire the balance of the floors for sale by the seller.

Rationale for the acquisition

Further to the detail above, the rationale for the acquisition is as follows:

- Acquisition yield of 8.5% for Tower;
- Secure cash flow through a five year head lease of the property undertaken by the seller (VMD Grupa is one of Croatia's most well respected developers and has a strong balance sheet);
- High quality tenants occupy the property – examples include Toshiba, Daikin, various embassies and other multinationals with a number of tenants expressing an interest to move to the property (the newest in the city) from other locations;
- The property is expected to dominate the local office market as there are no new office developments anticipated in the city for the next 18 months;
- Compliments and improves Tower's current mix of properties;
- Leverages off Tower's strong in-country relationships in Croatia;
- Pricing is reflective of a different property cycle from South Africa;
- Offers significant potential upside through growth in capital value in the future;
- A pipeline of strong, A grade property opportunities has been identified and is currently under negotiation with a number of vendors

Terms of the acquisition

The effective date of the acquisition is the date of transfer of the property into Tower Europe (anticipated to be in early August 2015)(the "**effective date**"). The purchase consideration of EUR23 700 000 will be settled as follows:

- an amount of EUR2 370 000 will be settled by way of set-off against a separate shareholder loan agreement entered into between Tower and the seller whereby the seller will contribute a shareholder loan and capital to Tower Europe in proportion to its respective shareholding in Tower Europe; and
- an amount of EUR21 330 000 by way of a cash payment.

The cash component will be settled through a combination of Euro denominated debt and cash with debt at a rate of three month Euribor plus a margin of between 375 basis points and 450 basis points. The current three month Euribor rate is -0.014%.

The acquisition is subject to one remaining condition precedent which provides that Tower Europe secure financing from a financial institution for not less than 50% of the purchase consideration.

The seller has provided Tower Europe with a head lease for a period of 60 months from date of transfer, indemnifying Tower against any shortfall in actual rental income and associated operating costs (the "**rental guarantee**"), calculated at a rate of EUR13.50/m² for office space increased by EUR2.50/m² for operating costs, EUR6.40/m² for storage space increased by EUR0.55/m² for operating costs and EUR80 per parking bay.

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 is set out below.

Property name and address	VMD KVART, Ulica Grada Vukovara 269d/VIII, 10000
Sector	Office
Property grade	Premium
Geographical location	Zagreb, Croatia
Size	15 floors, Block B
Rentable area (m²)	10 691.80m ² office and 253.30m ² storage
Parking	280 bays
Green status	A grade
Weighted average rental* per m²	EUR13.50/ m ²
Value attributed to the property	EUR23 700 000
Net operating income^ (July 2015 to June 2016)	EUR2 020 325

** Weighted average rental reflects the average for office space*

^ Net operating income excludes operating cost recoveries

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.

The value of the net assets of the property letting enterprise (including the property) acquired by Tower in terms of the acquisition is EUR23 700 000.

Categorisation of the acquisition

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

24 June 2015

Sponsor and corporate advisor

JAVACAPITAL

Legal advisor

