

Tower Property Fund Limited
Short-form: unaudited summarised consolidated interim results
for the six months ended 30 November 2019

- 43 properties valued at R5.0 billion
- Tangible net asset value (TNAV) down 1.9% to R8.95 per share
- Net asset value per share down 5% to R9.31 per share
- Reduction of loan to value to 33.7%
- Interest-only loans approved in Croatia
- Portfolio vacancy of 5.5%
- Distribution per share down 4.9% to 35.0 cents per share
- Revenue up 1% to R207 million
- Operating profit down 53% to R64 million*
- Headline earnings up 47% to R124 million
- Headline earnings per share up 47% to 36.8 cents per share
- Basic earnings down 126% to -R35 million**
- Basic earnings per share down 126% to -10.4 cents per share**
- Distributable earnings down 4% to R111 million

* Decrease as a result of the impairment of goodwill and fair value adjustments. The goodwill which arose on the acquisition of Sub Dubrovnik has been impaired due to the difference between the headlease rental and the base rental reducing.

** Decrease is predominantly as a result of the impairment of goodwill which does not impact distributable earnings

Sectoral spread by revenue %

Industrial	6
Office	48
Retail	46

Geographic spread by revenue %

Western Cape	29
Gauteng	33
KwaZulu-Natal	9
Croatia	29

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 43 convenience retail, industrial and office properties valued at R5.0 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropolises with 47% by value in Cape Town, 42% in Gauteng and 11% in KwaZulu-Natal. The six Croatian properties represent 32% of Tower's total value. Tower currently has a sectoral spread by value of 48% convenience retail, 46% office, 5% industrial and inventory 1%.

Tower's near-term focus remains: (i) the repositioning of the Cape Quarter Precinct as a lifestyle-focused precinct through the completion of the redevelopment of the retail space and the development of 55 residential units at Old Cape Quarter (which commenced in May 2019); (ii) the sale of properties which no longer align with our strategy in South Africa in order to reduce debt and invest in properties with better growth prospects; (iii) unlocking additional value and income growth in the Croatian portfolio through Tower Property Fund International Limited (TPF International) and (iv) reducing Euro debt secured by South African properties. Added to this, we are dedicating significant time and focus to the successful re-letting of the expiring Deloitte and Pernod Ricard premises in the Cape Quarter.

Progress has been made on all these key strategic initiatives, despite a very challenging operating environment.

FINANCIAL AND OPERATING PERFORMANCE

Our Croatian portfolio performed very well, with like-for-like property net income in Euros up 1.4% on the corresponding period as a result of inflation-linked escalations (property net income on a like-for-like basis excludes the straight-line lease accrual, currency fluctuations, acquisitions and disposals of property and once-off rates and electricity credits received).

Our total return from Croatia for the twelve months to 30 November 2019 was 8.9% in Euros. Yields have compressed on our properties resulting in the portfolio being valued at EUR5.2 million higher than purchase price.

In South Africa, we continue to face real challenges in the operating environment. Macroeconomic conditions in the country, potential ratings downgrades, failing municipalities and Eskom woes all add to the headwinds facing listed property owners in South Africa. This is particularly felt in our letting activities, with vacant space often taking longer than expected to fill, and anticipated tenant renewals often either not materialising, or happening at significantly lower levels. Asset management initiative resulted in increased like-for-like net property income in the South African portfolio of 2.3%.

Three key properties negatively impacted overall property income for the period. These properties have all undergone proactive asset management initiatives or planned changes of tenants which result in temporarily vacant premises but which improve the property portfolio considerably. These include: reductions in parking and residential income from Cape Quarter (-R2 million), in part, attributable to the commencement of the re-development of Old Cape Quarter, by the strategic decision to terminate the call-centre lease on the 6th floor of Sunclare and renovate and re-tenant it to a standard (and at rental levels) in line with the rest of the building (-R2.2 million) and by the delay in the new Pick n Pay lease agreement at Sparrow Centre, Modimolle where a delay in opening reduced expected income by R1.7 million for the period. The new 15 year Pick n Pay lease has added R20 million to the value of the property.

The cumulative result of all these factors is that for the period to end November:

- revenue increased by 1% to R206.9 million;
- rental income reduced by 1% to R201.1 million, with the sale of the Medscheme and Meadowbrook properties during the period; and
- distributions reduced by 4.9% to R118.1 million (or 35.0 cents per share),

compared to the corresponding period last year.

KEY STRATEGIC DECISIONS

We are pleased that a number of important strategic decisions made by the company over the past few years have strengthened our balance sheet and improved the defensiveness and marketability of our portfolio, which has positioned our business far better to weather the storms in these times than would have been the case had we not done so. These decisions include:

1. Investment into Croatia
2. Reduction in loan to value across the board, and particularly a reduction of the Euro debt secured against our South African portfolio
3. The repositioning of the Cape Quarter Precinct as a lifestyle focused precinct, through the residential additions and redevelopment of the retail space at Napier Street and Old Cape Quarter
4. Sale of properties and reduction of debt
5. Refurbishment of and reinvestment into properties

PROSPECTS

We expect distributions for the full year ending 31 May 2020 to be slightly down on distributions for the previous year. Distributions for the second six months of the financial year are anticipated to be flat to slightly up on the corresponding period last year. This projection is subject to the normal market risks prevalent in the current difficult economic environment and has not been reviewed and reported on by the auditors.

Our intention is to keep our loan to value below 35%, while developing and selling the residential apartments at Cape Quarter and extracting value from existing properties in key nodes including Croatia, Claremont and Rosebank, which we remain confident will deliver real growth to shareholders in the medium to long term, while appropriately limiting risk.

21 February 2020

The detailed results announcement, together with the investor presentation, is available at www.towerpropertyfund.co.za

Short-form announcement

This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. This announcement itself has not been audited.

Any investment decisions by shareholders and/or investors in relation to the company's shares should be based on the full announcement which is available on <https://senspdf.jse.co.za/documents/2020/jse/isse/TWR/interim19.pdf> and published on the company's website at <http://www.towerpropertyfund.co.za/download/tower-abridged-results-leaflet-2020/>.

The full announcement is available for inspection during normal business hours at no charge, from 21 February 2020 until 5 March 2020 at:

- the company's registered office; and
- the offices of the sponsor, Java Capital (6A Sandown Valley Crescent, Sandown, Sandton, 2196); or
- copies of the full announcement may be requested via email to info@towerpropertyfund.co.za.

This short-form announcement is the responsibility of Tower's board of directors.

The financial statements were prepared under the supervision of Mrs J Mabin CA(SA) in her capacity as chief financial officer.

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)
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Java Capital

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Company Secretary
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* Non-executive