

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 "group" or the "fund")

SHORT-FORM CONSOLIDATED ANNUAL RESULTS
FOR THE YEAR ENDED 31 MAY 2021

Geographic spread by revenue %

Western Cape	24
Gauteng	32
KwaZulu-Natal	9
Croatia	35

Sectoral spread by revenue %

Industrial	8
Office	45
Retail	47

PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 40 convenience retail, office and industrial properties valued at R4 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropolises with 51% by value in the Western Cape, 37% in Gauteng and 12% in KwaZulu-Natal. The four Croatian properties represent 34% of the fund's total value. Tower currently has a sectoral spread by value of 46% convenience retail, 45% office, 7% industrial and inventory 2%.

The objective of Tower is to deliver attractive, total return growth by (i) investing in properties in strong nodes with growth potential, (ii) active property asset management of our existing portfolio, with a particular focus on unlocking available profits, (iii) prudent balance sheet management in order to manage risk and create capacity to unlock value, (iv) accepting variances in income where these can be shown to add sustainable value, (v) selling non-core properties to realise capital for re-investment, and (vi) cost containment, with a focus on "greening" initiatives.

Tower's near-term focus remains (i) the leasing of vacancies in Gauteng through our dedicated team, (ii) the sale of non-core assets in Gauteng and KwaZulu-Natal (iii) to do all things necessary to ensure that the company and its tenants continue to weather the crisis caused by the Covid-19 pandemic, (iv) the completion of the redevelopment of the Old Cape Quarter, including the completion of the development of the fifty five new residential units by end August 2021, and (v) the unlocking of additional value and income growth in the Croatian portfolio through its shareholding in TPF International Limited.

ON-GOING IMPACT OF COVID-19

The past financial year has been extremely challenging as South Africa continues to manage the various Covid-19 waves. Gauteng offices have been particularly hard-hit with vacancies at historic highs. SAPOA states that national vacancies at end May 2021 are at 15% nationally across all property sectors with offices in Sandton and Bryanston, as high as 35%. Our Western Cape properties have recovered strongly with Cape Quarter being virtually fully let and our new large office tenant, Rain (Pty) Ltd, having a positive impact on the smaller retail tenants in the centre. A positive trend to emerge from the various lockdowns, is the demand for our Neighbourgood branded shared workspace at Cape Quarter which is 90% let.

The steps taken to strengthen our balance sheet, through the disposal of properties and the reduction of Euro denominated debt, proved well timed and have assisted Tower to weather this storm.

To date R14.6 million has been given as concessions and R6.4 million as rental deferrals.

FINANCIAL PERFORMANCE AND YEAR-END DIVIDEND

In our recent interim results, the board felt that given the uncertainty around tenant performance due to the Covid-19 second wave, it was prudent to defer the interim distribution to the financial year-end. Tower's income available for distribution for the financial year is 29.9 cents per share (a 49.6% reduction on the prior year). As per the prior year, Tower will distribute 75% of its distributable income, resulting in a dividend per share of 22.4 cents being declared for the year.

In our interim results for the period ended 30 November 2020, we stated that we expected distributions to be negatively impacted by trading conditions for the short term and that a more normalised distributable income for that period was 23 cents per share as opposed to the 19 cents distributable income earned. Trading conditions have not improved in most sectors with the third wave of Covid-19 resulting in further lockdowns affecting the economy via increasing vacancy levels. Tower's distributable income is down in the second half of the 2021 financial year. The property net income is down by R28 million on a like-for-like basis given vacancies, negative rental reversions and an increase in bad debt write offs of R11 million. Cape Quarter Square's rental income decreased by R12 million due to reduced market-related rentals for new tenants (now virtually fully let), including space take-up in the new Rain (Pty) Ltd lease. Other factors contributing to the reduction of distributable income is the settlement of Euro debt and the strengthening of the Rand affecting inflows from our Croatian investments. Our Western Cape and Croatian portfolios (accounting for 59% of our income and 68% of our value) have performed well operationally despite the tough economic conditions. Our Gauteng portfolio (accounting for 32% of our income and 24% of our value) has

performed poorly given the weighting of decentralised offices.

South African total property return for the past year was -6.7% (retail: 2.5%; office: -16.4% and industrial -9.2%). Total property return in Croatia was significantly higher than South Africa. In Euro, the return was 6.1% (retail: 6.1%; office: 6.1% and industrial 6.9%). Total property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 18.4% from R395.6 million to R323 million and net property operating expenses increased from R34.4 million to R55.1 million.

On a like-for-like basis, property net income in South Africa was 32.7% down for the year. This is predominantly as result of increased vacancies to 19.9% (the highest ever figure), Covid-19 concessions given, negative rental reversions, increased bad debts written off and the reduction in recoveries due to increased vacancies.

Cape Quarter, our largest South African property, experienced a large net income reduction due to the anchor office tenant Deloitte's lease expiring and the replacement tenant taking up its full premises on a stepped basis over two years. We successfully replaced Deloitte with an outstanding tenant, Rain (Pty) Ltd, on 1 April 2021; however, we were unable to achieve the gross rental paid by Deloitte. Deloitte had been in occupation for a 10-year period which meant that on expiry its rental had escalated considerably above market-related rentals. The income in Cape Quarter is therefore down for the year under review as Deloitte's space was vacant for five months in the period, equating to a drop of R9.1 million net property income for this tenancy. The Pernod Ricard space was vacant for nine months, equating to approximately R4.5 million net property income lost for the period. We have successfully refurbished this space into 1 850m² of shared workspace and have achieved rentals 60% higher than traditional office rentals (R190/m² net rental against R120/m² for traditional office space). Cape Quarter is now fully let and the net income will therefore improve going forward.

On a like-for-like basis, property net income in Croatia is down 1.2% in Euros. The decrease is due to the VMD headlease which expired on 31 July 2020. The net property income from VMD is down Euro 25 581 per month as a result thereof (Euro 10 699 reduction in rental income and Euro 14 882 additional property management fees). We have retained the services of VMD Group to manage these two properties in Croatia. Excluding VMD, the Croatian like-for-like net property income has increased by 3.8%. Property income excludes the straight-line lease accrual and currency fluctuations and is measured on a like-for-like basis, excluding acquisitions and disposals of property and once-off rates and electricity credits received.

As announced on SENS on 17 July 2020, Tower's short-term objective of reducing Euro debt secured by South African properties in order to reduce currency risk has been achieved through the repayment of Euro 11.6 million debt from the proceeds of the sales of Vukovarska and Velika Gorica and the refinancing of Euro 31.5 million of debt with Rand-denominated debt. We have therefore reduced this Euro debt from Euro 47 million to Euro 3.9 million. This has had a negative impact on distributable earnings, but significantly de-risks the balance sheet.

R'000	31 May 2021	31 May 2020	% increase/ (decrease)
Revenue (excluding straight line rental income)*	325 975	395 901	(18)
Basic loss	(418 211)	(494 956)	(16)
Basic loss per share in issue (cents)	(124.0)	(146.8)	(16)
Headline earnings	23 420	152 616	(85)
Headline earnings per share in issue (cents)	6.9	45.3	(85)
Net asset value per share at reporting date (cents)**	614	733	(16)
Operating profit***	155 575	90 849	71
Distributable earnings for the year****	100 904	200 263	(50)
Dividend per share for the year (cents)****	22.4	44.5	(50)

* The decrease is as a result of the contractual rental income being reduced from the prior comparative period due to property disposals, rental concessions granted to tenants as a result of the Covid-19 pandemic, as well as increased vacancies in the South African portfolio.

** The decrease is as result of the decrease in the fair value of investment properties.

*** The increase is as a result of the impairment of the goodwill in the prior year which was not required in the current year.

**** The decrease is predominantly as a result of the reduced net property income, the increased interest expense incurred due to the refinancing of Euro debt with Rand debt, and the sale of assets at yields higher than the cost of debt.

PROSPECTS

As announced on SENS on 27 May 2021, Tower has received a non-binding expression of interest from RDC Properties Limited (RDC), in terms of which RDC has proposed a potential transaction in terms of which it will acquire all the shares in Tower for a consideration of R4 per share, less the dividend declared elsewhere in these results. The parties remain in discussions and further announcements in regard to this proposed transaction will be made as soon as possible.

We do feel that we have reached the bottom of a difficult market and expect growth to come from our western Cape and Croatian properties. Gauteng remains very challenging with increasing municipal charges, decreasing rentals and increasing vacancies. Added to this is the recent looting violence which occurred in KwaZulu-Natal and Gauteng. Tower's Evagold Shopping Centre was severely damaged by looting resulting in a SASRIA insurance claim being lodged for damages and loss of income. Assessors have been appointed and repairs will be effected as soon as possible. Shops that were not damaged will begin trading as soon as viably possible. We have employed additional resources in Gauteng to assist us with the management of our portfolio and the team there has done excellently in the past few months. Non-core sales are being realised and vacant space is being let. Our focus remains on using excess capital to reduce debt with our LTV target being below 40% in South Africa.

Our balance sheet remains strong which has assisted us in weathering the storm of Covid-19. A dividend declaration announcement in respect of the dividend for the year ended 31 May 2021 and containing information relating to the tax treatment of the dividend and the dividend payment timetable will be released

separately on SENS.

20 August 2021

The detailed results announcement 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. Mazars, the group's independent auditor, has audited the consolidated annual financial statements for Tower for the year ended 31 May 2021, and has expressed an unqualified audit opinion thereon. Key audit matters were raised on the valuation of investment properties, and the impact Covid-19 outbreak has had on Tower's results. The audited consolidated annual financial statements and a copy of the audit opinion are available for inspection at the company's registered office and on the company's website <https://www.towerpropertyfund.co.za/wp-content/uploads/2021/08/tower-annual-financial-statement-FY2021.pdf>

Any investment decisions by shareholders and/ or investors in relation to the company's shares should be based on the full announcement published on SENS and on the JSE website at <https://senspdf.jse.co.za/documents/2021/jse/isse/TWR/FY2021.pdf> and published on the company's website <https://www.towerpropertyfund.co.za/wp-content/uploads/2021/08/tower-abridged-results-leaflet-FY2021.pdf>

The full announcement is available for inspection during normal business hours at no charge, from 20 August 2021 until 10 September 2021 at:

- the company's registered office; and
- the offices of the sponsor, Java Capital (6th floor, 1 Park Lane, Wierda Valley 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 the fund'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.

Sponsor
Java Capital

Transfer secretaries
JSE Investor Services Proprietary Limited

Company secretary
Statucor Proprietary Limited

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