

TOWER PROPERTY FUND

MEDIA RELEASE

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STRONG PERFORMANCE FROM TOWER'S PROPERTIES IN CROATIA

Cape Town – Tower Property Fund reported a strong performance from its property portfolio in Croatia while weak market conditions in South Africa continued to weigh on the fund's overall performance in the six months to November 2019. In this environment Tower performed well to keep its South African net property income unchanged for the period.

Tower owns a portfolio of 43 properties in South Africa and Croatia valued at R5.0 billion. The six properties in Croatia represent 32% of the fund's total value. Tower's sectoral focus is mainly on convenience retail (48% by value) and office properties (46% by value).

Chief executive Marc Edwards said the Croatian property portfolio performed well, generating a total return of 8.9% in Euros in the 12-months to November 2019. Net property income grew by 1.4% in Euros over the prior period as a result of inflation-linked escalations while the portfolio value has increased by €5.2 million over the purchase price.

"However, listed property owners continue to face real challenges in the South African operating environment with failing municipalities, power outages and the threat of ratings downgrades. This is particularly evident in our letting activities where vacant space takes longer than expected to fill, while tenant renewals often do not materialise or are concluded at significantly lower levels," he said.

Tower's vacancy level across the portfolio is currently 5.5% compared to 4.4% a year earlier.

Edwards said building disruptions, opening delays and tenant changes at three key properties had a R6 million negative impact on the fund's property income. "These properties have all undergone proactive asset management initiatives or planned changes in tenants which result in temporary vacancies but improve the overall portfolio."

Revenue increased by 1% to R207 million while rental income was 1% lower at R201 million following the sale of the Medscheme head office and Meadowbrook distribution centre properties during the period.

Operating profit declined 53% to R64 million owing mainly to the impairment of goodwill and fair value adjustments.

Tower's distribution paid to shareholders was 4.9% lower at 35.0 cents per share as a result of additional fund costs, including interest on capital spent on the South African property portfolio.

Edwards said key strategic decisions made by the company over the past few years have strengthened the balance sheet, improved the defensiveness and marketability of the portfolio and positioned the fund "to weather the storms in these times".

These strategies include investing in Croatia, reducing the portfolio's loan to value, particularly paying down Euro debt secured by SA properties, and repositioning the Cape Quarter Precinct as a lifestyle-focused area by developing 55 residential units and redeveloping retail space. The fund has also disposed of non-core properties to reduce debt and invest in properties with better growth prospects, while also refurbishing and reinvesting into properties to enhance the quality of the portfolio.

Edwards said Tower's focus will remain on developing and selling the residential apartments at Cape Quarter and extracting value from existing properties in key nodes including Croatia, Claremont (Cape Town) and Rosebank (Johannesburg). The fund is also investing significant resources in re-letting the expiring Deloitte and Pernod Ricard premises in the Cape Quarter.

"While we expect distributions for the full year to May 2020 to be slightly down on last year, we are confident that the fund will deliver real growth to shareholders in the medium to long term," he said.

Ends

For further information kindly contact

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