

CONDENSED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

Dividend for the six months ended 30 November 2020 deferred

Loan to value of **40.1%**

Sale of **Euro 9.1 million** of Croatian properties

Refinancing of **Euro 31.5 million** debt secured by South African properties with Rand debt

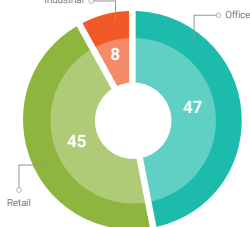
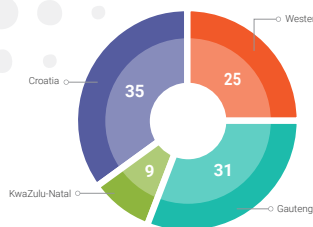
Average collection of **94%** after relief granted (April 2020 – January 2021)

Investment property valuations down by **R149 million** during the period

Cape Quarter Square vacancies **fully subscribed**

Geographic spread by revenue (%)

Sectoral spread by revenue (%)



PROFILE

Tower is an internally managed real estate investment trust (REIT) which owns a diversified portfolio of 41 convenience retail, office and industrial properties valued at R4.5 billion, located in South Africa and Croatia. The South African portfolio is located in the country's major metropolises with 46% by value in the Western Cape, 42% in Gauteng and 12% in KwaZulu-Natal. Tower entered Croatia strategically at a time when the country was emerging from the global financial crisis and property prices fell to an all time low. Tower's investment has seen capital and income appreciation from the region. The four Croatian properties represent 34% of the fund's total value. Tower currently has a sectoral spread by value of 47% office, 44% convenience retail, 7% industrial and inventory 2%.

Tower's long term objective remains the delivery of attractive, growing, total returns 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 and ex-growth properties to realise capital for re-investment, and (vi) cost containment, with a focus on "greening" initiatives.

However, given an unprecedented and tumultuous year that, at least in a South African context, has exacerbated an already extremely challenging economic environment, Tower's focus has been (i) to do all things necessary to ensure that the company and its tenants weather the current worldwide crisis caused by the Covid-19 pandemic including navigating the second wave being experienced, (ii) the completion of the redevelopment of the Old Cape Quarter; and (iii) the reduction of risk, including by the sale of non-core properties in South Africa in order to reduce debt.

FINANCIAL AND OPERATING PERFORMANCE

Property performance has been negatively affected as expected in the first half of the year. Vacancies have increased to 15.2%, Tower's highest ever figure. The vacancies however are concentrated mainly in Cape Quarter with the departure of Deloitte, the anchor office tenant of the property. Coupled with rising vacancies, base rentals have reduced. The R330 per m² paid by Deloitte in the last year of their lease now drops to a market rental of approximately R150/m². A lease, over the majority of the ex Deloitte premises, with a strong national tenant, is expected to be signed imminently with exco approval for the tenant received.

SA total property return for the past year was -11.6% (retail -10.0%, office -11.0% and industrial 3.1%). Total property return in Croatia, in Euro, was 5.9% (retail 5.5%, office 6.2% and industrial 8.0%). Property return is calculated as the income return plus the capital return of the properties.

Revenue decreased by 17% to R170.8 million, compared to the corresponding period, as a result of the sale of properties, Covid-19 concessions given and increased vacancies. This was partially offset by the weakening of the Rand.

Net property income decreased by 22% from the corresponding period to R150.5 million. On a like-for-like basis, property net income in SA was 20.3% down for the period, with the Croatian net income being 3.2% down in Euros. The like-for-like Croatian net property income is down due to the VMD headlease which expired on 31 July 2020. The net property income from VMD is down Euro 25,551 per month as a result thereof (Euro 10,699 reduction in rental income and Euro 14,882 additional property management fees). The impact on our distributable income is partially offset by the monthly interest saving of Euro 6,477 resulting from refinancing the bank loan of VMD. Like-for-like property income excludes the straight-line lease accrual, currency fluctuations, acquisitions and disposals of property and once-off rates and electricity credits received.

The increase in net property operating expenses from R13.4 million to R20.3 million is predominately as a result of increased bad debts written off in the period under review (R3 million more than the corresponding period) and new property management fees paid for VMD and Yazaki (after the expiry of the VMD head lease). We have retained the services of VMD Group to manage these two properties in Croatia.

Other items that impacted negatively on Tower's distributable income for the period included increased interest on debt incurred to fund capital expenditure, debt cancellation fees on certain refinanced facilities (which we have not amortised over the period of the new facility), the sale of assets at yields higher than the cost of debt and the increased interest expense as a result of the refinancing of Euro 31.5 million debt with Rand debt on 16 July 2020 reducing the company's exposure to currency risk – a long stated goal.

As a result of these factors, Tower's income available for distribution for the period is 20.6 cents per share (a 38% reduction on the prior year). This reduces to 19.4 cents per share after taking into account tax payable if one assumes a pay-out ratio of 75% of distributable income for the year. However, as detailed above, given the uncertain times and the need to maintain liquidity, the board has decided to withhold the interim dividend until year end.

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	30 November 2020	30 November 2019	% increase/ (decrease)
Revenue (excluding straight line rental income)*	174 057	201 128	(13)
Basic loss	(119 212)	(35 124)	(239)
Basic loss per share in issue (cents)	(35.3)	(10.4)	(239)
Headline earnings	30 558	124 054	(75)
Headline earnings per share in issue (cents)	9.1	36.8	(75)
Net asset value per share at reporting date (cents)**	716.1	930.7	(23)
Operating profit***	114 202	64 241	78
Distributable earnings for the six months ended****	65 270	111 804	(42)
Dividend per share for the six months ended (cents)*****	0	35.0	(100)

* The decrease is as a result of the contractual rental income being reduced from the prior comparative period due to property disposals and the 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 a 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 comparative prior period which was not required in the current period.

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

***** The decrease is a result of the above-mentioned factors, together with Tower's decision, in the current environment, to not pay an interim dividend.

PROSPECTS AND DIVIDEND

Tower's distributable income for the six months of 19.4 cents per share is as a result of a number of factors. Some of these factors include (i) the conversion of Euro debt into Rand debt – a strategic and stated target; (ii) the sale of assets to reduce LTV; and (iii) reversions of above market office rentals. These factors will have an impact on sustainable distributable income going forward. However, we expect a number of other factors, including (i) the impact of Covid-19 related rent relief; (ii) increases in bad debts attributable to Covid-19; and (iii) the temporary increase in vacancies at Cape Quarter as a result of the departure of a number of key office tenants, to only impact distributions over the relatively short term.

If one reverses the impact of these factors (assuming a level of bad debts more consistent with prior periods, had there been no rental concessions and a re-letting of 95% of the vacant office and retail space at Cape Quarter at market related levels), distributable income for the period would have been closer to 23 cents, which we believe represents a more normalised, sustainable level of distributable earnings for assessing Tower's value proposition. However, this does presuppose a return to more normal trading conditions which, given the current levels of uncertainty, may take some time.

19 February 2021

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 published on SENS and on the JSE website at <https://senspdf.jse.co.za/documents/2021/jse/isse/TWR/HY2020.pdf> and published on the company's website <http://www.towerpropertyfund.co.za/download/tower-abridged-resultsleaflet-HY2020/>.

The full announcement is available for inspection during normal business hours at no charge, from 19 February 2021 until 4 March 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.

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")

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* Non-executive