

VUKILE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE NSX share code: VKN
ISIN: ZAE000180865
Debt company code: VKEI
(Granted REIT status with the JSE)
("Vukile" or "the company")



ACQUISITION OF PAN AFRICA SHOPPING CENTRE

1. Introduction

Shareholders are advised that on 28 July 2022 ("**signature date**") Vukile concluded an agreement pursuant to which, and subject to the fulfilment of various conditions precedent, Vukile will acquire from Pan Africa Development Company Proprietary Limited ("**seller**"), as an indivisible transaction, the letting enterprise known as the Pan Africa Shopping Centre comprising the leasehold rights in respect of erven 40 and 42-47, Wynberg Township, Gauteng ("**leasehold properties**"), erf 41 Wynberg Township, Gauteng (the "**adjacent freehold property**") and the letting enterprise conducted by the seller over the leasehold properties ("**business**") (collectively the "**Pan Africa Shopping Centre**" or "**phase 1**") and the future expansion of the shopping centre on the leasehold properties and the adjacent freehold property by the seller ("**phase 2**").

2. Rationale and funding of the transaction

The acquisition is consistent with Vukile's stated strategy of being a high-quality, low-risk JSE listed retail focussed REIT operating in South Africa and in Spain, with a focus in South Africa on mid to low LSM shopping centres located in South African townships, rural areas and commuter nodes.

The strategically aligned acquisition, which will be funded out of proceeds from sales and existing resources, will not affect the company's current loan-to-value ratio of 43% and will complement Vukile's retail portfolio and positioning as a leading retail REIT in South Africa.

3. Description of the Pan Africa Shopping Centre and details of the seller

- 3.1. The Pan Africa Shopping Centre is located in Alexandra Johannesburg, one of the largest and most dense townships in South Africa. It is an established and very well supported shopping centre with an adjoining taxi rank and has an estimated primary catchment area of around 160 000 people. The shopping centre has over 60 shops, with Boxer as the anchor tenant. It has a high national tenant component and includes other national retailers such as Truworths, Pep, Mr Price, Ackermans, Jet, Clicks and Studio 88, amongst others.
- 3.2. A phase 2 extension of the shopping centre is in the initial planning stages and is very well progressed with strong demand from new tenants. The phase 2 extension will add over 9 000m², increasing the total GLA of the centre to over 25 000m².
- 3.3. The beneficial owners of the seller are Atterbury Property Proprietary Limited (50,887%), Talis Holdings Proprietary Limited (47,337%) and Summit Ridge Trading 5 Proprietary Limited (1,776%), the beneficial owners of which are various individual shareholders, none of whom would be classified as a material shareholder of the company. None of the sellers or the beneficial shareholders thereof are a related party to Vukile.

4. Salient terms of the acquisition

- 4.1. The leasehold properties are owned by the City of Johannesburg ("**COJ**") and are leased by the seller in terms of a registered notarial head lease in terms of which the seller has the right to use and occupy the leasehold properties, erect improvements thereon and to sublet the improvements ("**leasehold rights**").

- 4.2. Vukile will acquire phase 1, with effect from the date of registration of the cession and assignment of the Pan Africa Shopping Centre against the notarial head lease and the cancellation of all mortgage bonds over the notarial head lease and the simultaneous transfer of the adjacent freehold property in Vukile's name in the relevant Deeds registry ("**registration date**").
- 4.3. The seller is in the process of concluding an agreement in terms of which it will acquire and will on or before the registration date take transfer of the adjacent freehold property (the "**PAPII sale agreement**").
- 4.4. Vukile will, as an indivisible transaction, irrevocably appoint the seller to develop phase 2 in accordance with the terms of a development agreement to be concluded between the seller and Vukile. It is intended that the fully developed phase 2 will be acquired and paid for by Vukile on completion in April 2024 based on an adjusted purchase consideration as more fully described in paragraph 5.2 below.

5. Purchase consideration

5.1. Initial purchase consideration

The anticipated cash consideration for the acquisition, prior to the adjustments set out in paragraph 5.2 below, is R668 879 505.00 calculated as follows:

- 5.1.1. for the Pan Africa Shopping Centre, an amount of R414 591 031.00 inclusive of VAT at the rate of 0% plus interest at 5.75% annum, calculated daily from 1 July 2022 until the registration date ("**phase 1 purchase consideration**"), to be settled by the delivery of an unconditional and irrevocable bank guarantee, payable free of exchange and without deduction on the registration date; and
- 5.1.2. for phase 2, an amount of approximately R254 288 474.00, inclusive of VAT at the rate of 0% ("**phase 2 anticipated purchase consideration**"), calculated by applying a capitalisation rate of 9.25% to the forward-looking net operating income ("**NOI**") (the "**capitalisation rate**"), based on a preliminary budget prepared by the seller and Vukile in respect of phase 2 (the "**phase 2 preliminary budget**"), which is payable by the delivery of an unconditional and irrevocable corporate guarantee issued by Vukile, in its name, 14 days after the signature date of the agreement.
- 5.1.3. A review of the phase 2 anticipated purchase consideration will be conducted by the parties two months prior to the anticipated date on which phase 2 will open for trade and the revised consideration ("**phase 2 purchase consideration**") will be settled by Vukile replacing the corporate guarantee referred to in paragraph 5.1.2 above with an unconditional and irrevocable bank guarantee by no later than 30 days prior to the day on which phase 2 will actually open for trade, payable on the first business day after:
 - 5.1.3.1. the business day that the principal agent appointed by the seller issues a certificate confirming that in his/her opinion, the buildings in phase 2 are capable of being utilised for their intended purpose; and
 - 5.1.3.2. not less than 80% of the tenants in phase 2, determined by gross lettable area ("**GLA**") have commenced trading,(the "**phase 2 payment date**").

5.2. Adjusted purchase consideration

- 5.2.1. The phase 1 purchase consideration is subject to adjustment based on the retail basic rental income included in the preliminary budget reflecting the agreed anticipated 12 month forward looking income and operating expenses for the period 1 July 2022 to 30 June 2023 ("**phase 1 retail basic rental income**"). Within 90 business days after the registration date, the parties will meet to determine if the actual retail basic rental income for phase 1 is higher or lower than the phase 1 retail basic rental income and the phase 1 purchase consideration will be increased or reduced, as the case may be, by the difference divided by a 9.25% capitalisation rate ("**phase 1 adjusted purchase consideration**"), subject to such adjusted purchase consideration not exceeding an amount of R450 000 000.00.

- 5.2.2. The phase 2 purchase consideration is subject to adjustment based on the retail basic rental income included in the updated phase 2 budget (“**phase 2 retail basic rental income**”). Within 90 business days after the phase 2 payment date, the parties will meet to determine if the actual basic retail rental income for phase 2 is higher or lower than the phase 2 retail basic rental income and the phase 2 final purchase consideration will be increased or reduced, as the case may be, by the difference divided by a 9.25% capitalisation rate (“**phase 2 adjusted final purchase consideration**”), subject to such adjusted purchase consideration not exceeding an amount of R350 000 000.00.
- 5.2.3. The acquisition agreement provides for undertakings, warranties and indemnities which are normal for transactions of this nature.
- 5.2.4. Certain employees of the seller directly involved in the management and operation of the shopping centre will transfer together with the letting enterprise.

6. Conditions precedent

The acquisition is subject to the fulfilment or waiver, as the case may be, of the following conditions precedent:

- 6.1. the conclusion of a development agreement in terms of which Vukile appoints the seller to undertake phase 2 development within 30 business days of the signature date;
- 6.2. the board of directors of the seller resolving to approve the conclusion and implementation of this acquisition within 7 business days of the signature date;
- 6.3. to the extent required, the shareholders of seller passing a special resolution in terms of Section 112 (read with Section 115) of the Companies Act, in terms of which the shareholders ratify the acquisition within 7 business days of the signature date;
- 6.4. Vukile procuring finance for all or a portion of the purchase consideration in the form of bank funding on terms and conditions acceptable to Vukile in its sole discretion, and Vukile notifying the seller in writing that it has procured the finance it requires within 30 business days of the signature date;
- 6.5. the conclusion of the PAPII sale agreement on terms and conditions reasonably acceptable to the seller within 30 business days of the signature date;
- 6.6. the seller procuring funding for phase 2 on terms and conditions acceptable to the seller, and the seller notifying Vukile in writing that it has procured the finance it requires, within 30 business days of the signature date;
- 6.7. the seller having procured tenants for the higher of 70% of the GLA of phase 2 and the pre-let threshold imposed by the relevant financier providing the phase 2 development funding, either in the form of signed offers to lease or lease agreements, which tenants shall comprise national tenants and the terms and conditions of such offers to lease or leases being approved in writing by Vukile within 60 days of the signature date;
- 6.8. the seller securing the required written consent from the COJ for the sale of the leasehold rights to Vukile within 120 days of the signature date;
- 6.9. the seller securing the required written amendment to the notarial head lease from the COJ within 120 days of the signature date;
- 6.10. the Competition Commission or the Competition Tribunal, unconditionally approving the implementation of the acquisition in terms of the Competition Act, within 90 days from the date of the fulfilment of the condition precedent set out in paragraph 6.4 above; and
- 6.11. to the extent required by the seller, the conclusion of a long-term notarial lease over erf 41 between the seller and Vukile on terms acceptable to the seller within 30 days of the signature date.

7. Property specific information

Details of the property, including the property name, geographical location, sector, GLA, weighted average rental per square metre, the net operating profit and the value attributed to the property, are set out in the table below:

| Property name | Geographical location | Sector | GLA (m ²) | Weighted average rental per m ² (R/m ²) | Purchase consideration (R) ¹ | Value attributed to the property as at 1 July 2022 (R) |
|----------------------------|--------------------------------------|--------|-----------------------|--|---|--|
| Pan Africa Shopping Centre | Alexandra Township, Wynberg, Gauteng | Retail | 15 767 | 232 | 414,591,031 | 414,591,031 |

Notes:

- The Phase 1 purchase consideration is considered to be in line with the fair market value of the property, as determined by the directors of the company. The directors of the company are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No. 47 of 2000.

8. Financial information

Set out below is the forecast financial information of the acquisition (“the forecast”) for the 5 months ending 31 March 2023 and the 12 months ending 31 March 2024 (“the forecast period”).

The forecast has been prepared on the assumption that the acquisition will be implemented on 1 November 2022 and comprises forecast results only for the duration of the forecast period.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the company. The forecast has been prepared in accordance with the company’s accounting policies, which are in compliance with International Financial Reporting Standards, and the JSE Listings Requirements. The forecast has not been reviewed or reported on by independent reporting accountants.

| R’000 | | Forecast for the 5 months ending 31 March 2023 | Forecast for the 12 months ending 31 March 2024 |
|---|--------|--|---|
| Rental revenue | Note 1 | 18 840 | 47 002 |
| Recoveries | | 8 489 | 22 201 |
| Straight line rental revenue accrual | | 1 707 | 2 184 |
| Revenue | | 29 037 | 71 387 |
| Operating costs | | (11 389) | (29 592) |
| Net operating income | | 17 648 | 41 795 |
| Finance cost | | (15 893) | (38 142) |
| Total comprehensive profit | | 1 755 | 3 653 |
| Reconciliation of profit to funds from operations earnings | | | |
| Total comprehensive profit | | 1 755 | 3 653 |
| Straight line rental revenue accrual | | (1 707) | (2 184) |
| Funds from operations | | 48 | 1 469 |

Note 1 – Rental revenue

| R'000 | Forecast for the 5 months ending 31 March 2023 | Forecast for the 12 months ending 31 March 2024 |
|-----------------|---|--|
| Contracted | 99% | 89% |
| Near-contracted | 1% | 11% |
| Uncontracted | 0% | 0% |
| Total | 100% | 100% |

Notes:

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast is based on information derived from lease contracts, historical information, budgets and additional information provided by the property manager and/or seller.
2. The forecast has been prepared on an aggregated basis for the acquisition only. It is assumed that the property will not be disposed of during the forecast period.
3. Rental revenue has been forecast on a lease-by-lease basis.
4. Contracted rental revenue comprises rental based on existing lease agreements, including stipulated increases, all of which are valid and enforceable.
5. Near-contracted revenue comprises rental from leases expiring during the forecast period which are assumed to renew at current market rates unless the lessee has indicated its intention to terminate the lease. Such revenue is classified as near-contracted rental revenue from the date of expiry of the lease.
6. All other rental revenue is classified as uncontracted.
7. Existing vacant space is assumed to remain vacant unless a tenant has been identified and a legally binding agreement is in the process of being finalised, in which case it is deemed probable that such space will be let and rental is forecast at current market rates.
8. Material tenant recoveries are electricity, water and rates, which have been forecast based on a recovery percentage, which is in line with historic trends, and the related forecast expense.
9. Operating costs have been forecast on a line-by-line basis based on management's review of historical information, budgets, and discussion with the property manager. Operating costs includes a provision for bad debts.
10. A finance cost has been recognised for the additional interest-bearing liabilities raised of R414 591 031.00 to fund the purchase consideration relating to the acquisition, based on the current five year fixed cost of debt of the company of 9.20%.
11. No fair value adjustment is recognised.
12. There will be no unforeseen economic factors that will affect the lessee's ability to meet their commitments in terms of existing lease agreements.

9. Categorisation of the acquisition

The acquisition is classified as a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require Vukile shareholder approval.

29 July 2022

Corporate advisor and JSE sponsor



NSX sponsor

