

## TEXTON PROPERTY FUND LIMITED

Granted REIT status by the JSE

(Incorporated in the Republic of South Africa)

(Registration number 2005/019302/06)

JSE code: TEX

ISIN: ZAE000190542

("Texton" or "the Company")



**TEXTON**  
PROPERTY FUND

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## ACQUISITION OF PROPERTIES

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### A. INTRODUCTION

The board of directors of Texton is pleased to advise shareholders of the Company ("Shareholders") that it has concluded agreements with various vendors to acquire two property portfolios, underpinned by strong contractual cash flows, in South Africa ("SA Acquisition") and in the United Kingdom ("UK Acquisition") (collectively, the "Acquisitions") for a gross purchase consideration of R863.4 million at a yield of 9.61% in SA and 6.95% in the UK, comprising:

- R363.0 million for the SA Acquisition; and
- £21.98 million (R500.4 million converted at a spot exchange rate as at 26 May 2016 of £1:R22.7672) for the UK Acquisition

The Acquisitions comprise quality income producing properties that complement Texton's existing portfolio and allows the Company to continue to follow its clearly defined strategy of acquiring accretive properties, improving the overall quality of the portfolio whilst diversifying its portfolio beyond the South African borders into the UK. This acquisition is weighted by value towards the UK and moves the portfolio geographical split by value to 55:45 in South Africa and the UK, respectively.

The details pertaining to the Acquisitions are set out in the section B below. As a result of Texton's defined strategy of ensuring a diversification of its portfolio into the UK, Texton has ensured that the Acquisitions are inter-conditional on each other.

The effective date of the Acquisitions will be the earlier of transfer date or 1 October 2016.

### B. OVERVIEW OF THE ACQUISITIONS

#### 1. THE UK ACQUISITION

##### B.1.1. THE UK ACQUISITION

Texton has agreed terms, on an exclusive basis, with the vendors, to acquire a property portfolio in the UK comprising, 2 office buildings and 1 industrial building, all single-tenanted, ("UK Portfolio") for an aggregate purchase price of £21.98 million (R500.4 million converted at a spot exchange rate as at 26 May 2016 of £1:R22.7672), which is characterised by:

- strong tenants;
- no vacancies;

- long expiry profiles (11.76 years weighted average lease expiry) which will augment Texton’s existing lease expiry profile; and
- geographic diversification to Texton’s UK property portfolio

In addition, this is a unique opportunity to acquire a portfolio of properties “off market “with a further significant and low risk entry into the UK.

The UK Acquisition will be implemented by means of:

- the acquisition of 100% of the shares, and loan claims in, Hillview Blend (Gainsborough) Two Limited, a company registered in Guernsey, which owns Heapham Road, from Hillview Blend (Gainsborough) One Limited;
- the acquisition of 100% of the shares, and loan claims in, Hillview Blend (Mowbray) Limited, a company registered in Guernsey, which owns Mowbray House, from Hillview Blend (Gainsborough) One Limited; and
- the acquisition of 100% of the shares of, and loan claims in, ESKI Holdings Inc, a company registered in British Virgin Islands, which owns the Chatham Building, from Limmat Holdings Incorporated.

#### B.1.2. PROPERTY AND OTHER INFORMATION RELATING TO THE UK PORTFOLIO

	Heapham Road	Mowbray House	Chatham Building	Total
Location	Gainsborough, UK	Nottingham, UK	Kent, UK	
Sector	Industrial	Office	Office	
Tenant(s)	Coveris Flexibles UK Limited	Browne Jacobson LLP	Lloyd’s (Insurance) of London	
GLA (ft <sup>2</sup> )	85 161	57 690	25 975	168 826
WALE (years)	15.5	5.8	12.5	11.76
Vacancies (%)	0%	0%	0%	0%
Rental/ ft <sup>2</sup> (£)	5.09 (R115.89) <sup>1</sup>	13.54 (R308.27) <sup>1</sup>	14.00 (R318.74) <sup>1</sup>	10.88 (R247.63) <sup>1</sup>
Net Income from 1 Aug 2016 to 31 July 2017 (£’000)	433.32 (R9.87m) <sup>1</sup>	744.92 (R16.96m) <sup>1</sup>	349.63 (R7.96m) <sup>1</sup>	1,527.87 (R34.79m) <sup>1</sup>
Purchase consideration (£m)	6.42 (R146.17m) <sup>1</sup>	9.93 (R226.08m) <sup>1</sup>	5.63 (R128.18m) <sup>1</sup>	21.98 (R500.43m) <sup>1</sup>

1. Converted at the spot exchange rate as at 26 May 2016 of £1:R22.7672.

#### Heapham Road

Heapham Road is a high specification modern industrial warehouse, developed in 2011, which is exclusively tenanted by Coveris Flexibles, a leading international manufacturing company, for a period of 20 years, with 15.5 years remaining on its lease.

Heapham Road is favourably situated within the successful Heapham Road Industrial Estate in Gainsborough, UK, an established commercial and industrial location within the densely populated district of Lincolnshire.

### **Mowbray House**

Mowbray House is a modern multi-storey office building, exclusively tenanted by Browne Jacobson LLP with 5.6 years remaining on its lease. Browne Jacobson LLP is the largest law firm in the Midlands with over 400 lawyers including 103 partners. Mowbray House accommodates central services for all its six regional offices. The tenant recently relocated to these offices from their previous accommodation which they occupied for 60 years.

Mowbray House is situated in a prime location in Castle Meadow Road, Nottingham, UK, a principal commercial and administrative centre for the region. The property forms part of a greater office park incorporating the HM Revenue and Customs campus consisting of five other office buildings and an amenity block.

### **Chatham Building**

The Chatham Building comprises a high quality, modern, office building, which is exclusively tenanted by Lloyd's of London, a leading global insurance company, on a 15-year lease with 12.5 years remaining on such lease.

The Chatham Building occupies a prominent site in Chatham, a port town in the South East of England and within 53km of London. The building is located within the successful Chatham Dockyard precinct, a highly sought-after office precinct in Chatham and is within close proximity to major amenities and arterial roads and highways and a short distance from the Chatham Train Station.

This property is only one of three properties occupied by the international company, and the Chatham Building is the only office located at its maritime roots.

## **2. THE SA ACQUISITION**

### **B.2.1. THE SA ACQUISITION**

Texton has agreed terms, on an exclusive basis, with the Blend Property group of companies ("**SA Portfolio Vendor**") to acquire a portfolio of 6 prime office properties for an aggregate purchase price of R363.0 million ("**SA Portfolio**"), which is characterised by:

- high profile tenants;
- leases characterised by contractual above-inflation escalations;
- recently refurbished commercial buildings; and
- favourably located properties with excellent exposure to major road networks

The SA Portfolio tenant base consists of 51% national and / or multi-national tenants, with a weighted average lease expiry of 4.3 years and average escalations of 7.6%.

## B.2.2. PROPERTY AND OTHER INFORMATION RELATING TO THE SA PORTFOLIO

	Edenburg Terraces	MBD House	Bedfordview portfolio				Total
			18 Skeen Boulevard	16 Skeen Boulevard	Whirlpool Building	Babcock Building	
Location	Rivonia, Gauteng	Hyde Park, Gauteng	Bedfordview, Gauteng	Bedfordview, Gauteng	Bedfordview, Gauteng	Bedfordview, Gauteng	
Sector	Office, Retail	Office	Office	Office	Office	Office	
Tenant(s)	Multi-tenanted	MBD Credit Solutions	PG Glass	Multi-tenanted	Whirlpool, General Mills	Babcock Africa Services, Long City Diamonds	
GLA (m <sup>2</sup> )	11 968	5 570	3 850	4 000	1 940	1 861	<b>29 189</b>
WALE (years)	2.9	7.0	6.5	4.2	4.5	2.5	<b>4.3</b>
Vacancies (%)	9%	0%	0%	8%	0%	0%	<b>0%</b>
Rental/m <sup>2</sup> (R)	90.35 <sup>1</sup>	125.54	124.69	131.42	147.63	157.02	<b>113.84</b>
Net Income from 1 Aug 2016 to 31 July 2017 (Rm)	11.20	8.52	4.68	4.47	2.99	3.03	<b>34.89</b>
Purchase consideration (Rm)	106.00	92.00	51.03	47.66	33.00	33.31	<b>363.00</b>

### 1. Majority office

#### Edenburg Terraces

The recently refurbished 6 free standing buildings known as Edenburg Terraces, are well located on Rivonia Boulevard in Rivonia, a growing commercial and residential node in northern Johannesburg. The property's location and its close proximity to Sandton and major road networks (N1 and Rivonia Road) make it a sought after business address, and an attractive alternative to Sandton. The property, built above a super basement with surround access controlled parking, is tenanted by international and national corporates.

The property has a small retail component on the ground floor which comprises restaurants and banks.

#### MBD House

MBD House comprises a multi-storey, face brick office block which is exclusively tenanted by MBD Credit Solutions, a leading independent provider of credit management solutions in Southern Africa with (subject to signature of an agreed addendum) 7 years remaining on its lease, subject to a rental escalation of CPI plus 1% from 1 June 2017, capped at 8% per annum compounded over the remaining period of the lease.

MBD House is located in Hyde Park and within close proximity to the popular Hyde Park Corner shopping centre and other amenities. The building is set within a large self-contained site and recently underwent a full refurbishment internally.

## **Bedfordview portfolio**

The properties in Bedfordview (18 Skeen Boulevard, 16 Skeen Boulevard, Whirlpool Building and the Babcock Building) are well located in the Bedfordview commercial node offering easy access to the N3 and R24 and are within close proximity to the OR Tambo International Airport.

### **18 Skeen Boulevard and 16 Skeen Boulevard**

The 18 Skeen Boulevard and 16 Skeen Boulevard properties, which consist of multi-storey office buildings with modern finishes, which were recently refurbished in 2015.

The 18 Skeen Boulevard property is exclusively tenanted by PG Glass, a national glass installation solutions provider, with 6.5 years remaining on its lease and the 16 Skeen Boulevard property is multi-tenanted with a weighted lease expiry of 4.2 years.

### **Whirlpool Building and Babcock Building**

The Whirlpool Building and Babcock Building consist of double-storey modern office buildings located within Riley Office Park, Bedfordview.

The Whirlpool Building was developed in 2009 and is anchored by Whirlpool, a multi-national manufacturer and marketer of home appliances, with 3.2 years remaining on its lease and with rental escalating at a rate of 8.0%.

The Babcock Building, refurbished in 2013, is anchored by Babcock Africa Services, a multi-national corporation which specialises in support services managing complex assets and infrastructure in safety- and mission-critical environments, with 2.5 years remaining on its lease and with rental escalating at a rate of 8.2%.

## **3. PROPOSED FUNDING OF THE ACQUISITIONS**

The aggregate purchase consideration in respect of the Acquisitions of R863.4 million will be funded utilising a combination of debt and the issue of new Texton ordinary shares.

Texton has obtained commitments to place in excess of R170 million and has expressions of interest of over R200 million. It is confident that it will be able to fund the overall aggregate purchase price through a combination of shares to be placed with the interested parties, debt and cash generated from the sale of non-core properties.

## **4. CONDITIONS PRECEDENT**

The conditions precedent to the SA Acquisition include, *inter alia*, the:

- Competition Authority approval in terms of the Competition Act 89 of 1998;
- Raising of the necessary equity capital to fund the Acquisitions (the “**Acquisitions Equity Raising**”); and
- Shareholder approval in relation to the placing of the shares under the authority of directors to pursue the Acquisitions Equity Raising.

The conditions precedent to the UK Acquisition include:

- Approval from the Financial Surveillance Department of the South African Reserve Bank; and
- The SA Acquisition becoming unconditional.

## 5. CATEGORISATION

The Acquisitions constitute a category 2 transaction in terms of the JSE Listings Requirements and, accordingly, does not require approval by Shareholders.

## 6. INDEPENDENT VALUATIONS OF THE ACQUISITIONS

The board of directors of Texton (“**the Board**”) is satisfied that the property values of the Acquisitions are in line with the purchase prices being paid by Texton. The Board is not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No 47 of 2000.

Dunkeld

27 May 2016

### **Investment Bank and Sponsor to Texton**

Investec Bank Limited

### **Corporate advisor to the Blend group of companies**

Java Capital

### **Legal advisors for the SA Acquisition**

Cliffe Dekker Hofmeyr

### **Legal advisors for the UK Acquisition**

Osborne Clarke LLP

Pinsent Mansons LLP

### **Competition Law advisors for the SA Acquisition**

Baker McKenzie