

TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2016/277183/06
JSE share code: TPF ISIN: ZAE000227765
(Approved as a REIT by the JSE)
("Transcend" or "the Company")

ACQUISITION OF 2,159 RESIDENTIAL UNITS AND UPDATE ON PREVIOUSLY ANNOUNCED ACQUISITIONS

TRANSACTION HIGHLIGHTS

- Acquisition of 2,159 residential units ("**the Units**") for R1.27 billion at a weighted average yield of 9.87%;
- The Units are spread across eight properties ("**the Properties**"), with 85.6% of the Units located in Gauteng and 14.4% in the Western Cape;
- The Properties are well located, affordable and life-style enhancing;
- The Transactions (as defined below) are expected to further enhance the quality, defensive nature and scale of the Company's existing portfolio;
- The Transactions will be funded 40% with equity (fully committed and underwritten) and 60% with debt;
- Transcend's portfolio is set to increase to approximately R2.5 billion, comprising 4,691 units spread across 22 properties after the Transactions;
- Transcend intends to apply for a migration to the Main Board of the Johannesburg Stock Exchange ("**JSE**").

1. INTRODUCTION

The directors of Transcend ("**the Board**") are pleased to advise shareholders that Transcend has concluded purchase agreements ("**Sale Agreements**") to acquire 2,159 Units spread across a portfolio of eight properties from two related parties - International Housing Solutions Residential Partners 1 (RF) Proprietary Limited ("**IHS Res 1**") and Sunnysore Trade and Invest 105 Proprietary Limited ("**Sunnysore**") (which is effectively 100% owned by SAWHF PVE (SA) ("**SAWHF**")).

The transactions with IHS Res 1 involve the acquisition of 1,983 of the Units, spread across seven properties ("**Res 1 Properties**") for a purchase consideration of R1.21 billion, subject to adjustment as detailed in paragraph 4(d) below ("**Res 1 Transactions**").

The transaction with Sunnysore relates to the acquisition of 176 residential sectional title Units in two sectional schemes known as Protea Glen ("**Protea Glen**") for R60 million ("**Protea Glen Transaction**"). Protea Glen is a stabilised rental enterprise, located in Kganwe Street, Protea Glen, Soweto.

The implementation of the Res 1 Transactions and Protea Glen Transaction (collectively, "**the Transactions**") will increase the size of Transcend's portfolio to approximately R2.5 billion (comprising 4,691 quality Units with a total GLA of 265,087m²), following which Transcend intends applying to the JSE for a migration to the Main Board of the JSE (subject to meeting the relevant JSE Listings Requirements).

2. RATIONALE FOR THE TRANSACTIONS

The Transactions are consistent with Transcend's stated growth and investment strategy of acquiring yield-accretive residential properties, with a focus on housing opportunities which are affordable and lifestyle-enhancing, and located in well-situated, high growth urban areas.

The Properties offer stable and secure income streams and further diversify Transcend's residential portfolio, with 85.6% of the Units being located in Gauteng and 14.4% in the Western Cape.

The implementation of the Transactions will more than double the size of Transcend's property portfolio in value, and significantly increase its market capitalisation, providing it with a solid platform to grow the Company further and increase its shareholder base and liquidity.

3. OVERVIEW OF THE PROPERTIES

3.1 RES 1 PROPERTIES

The Res 1 Properties comprise 7 residential complexes with 1,983 Units spread across Cape Town and Johannesburg. The salient features of each complex are set out below:

1. Midrand Village

- Situated on Erven 4472 to 4809 Clayville Extension 46, Porcelain Road, Clayville, Gauteng.
- Transcend is acquiring 225 Units which vary from two-bedroomed units with one bathroom, measuring 55m² to three-bedroomed Units with two bathrooms, measuring 80m².
- New lettings currently range from monthly gross rentals of R6,500 for the two-bedroomed Units up to R7,900 for the three-bedroomed Units.

2. De Velde

- Known as Sectional Schemes De-Velde 1, 2, 4 and 5, located on Portions 128, 131, 132 and 134 of the Farm 794 Stellenbosch RD, De Velde, Western Cape.
- The complex comprises 310 Units which vary from one-bedroomed Units with one bathroom, measuring 38m² to three-bedroomed Units with two bathrooms, measuring 104m².
- New lettings currently range from monthly gross rentals of R6,600 for the one-bedroomed Units up to R12,000 for the three-bedroomed Units.

3. Birchwood Village

- Situated on Erf 92 Chartwell Extension 14 & Erf 93 Chartwell Extension 15, located at the corner of Cedar Road & 3rd Street, Chartwell, Johannesburg.
- The complex comprises 360 Units (consisting of 108 one-bedroomed Units, 224 two-bedroomed Units and 28 three-bedroomed Units), with an average size of 73m² and monthly gross rentals ranging from R6,200 – R11,000 per Unit.

4. Southgate Ridge

- Situated on Erven 3030 and 3031 Naturena Extension 16, 5 Duin Place, Naturena, Gauteng.
- The complex comprises 412 Units, all of them being two-bedroomed Units with one bathroom, measuring approximately 53m². The Units are accommodated in 62 two-storey blocks, all of them of which are north facing.
- New lettings currently range from monthly gross rentals of R5,400 for first floor Units to R5,600 for ground floor Units.

5. Urban Ridge (West)

- Situated on Erf 1399 Halfway Gardens Extension 35, 81 Fifth Road, Midrand, Gauteng.
- The complex comprises 260 Units, all of them being two-bedroomed units with one bathroom, measuring approximately 57m². The Units are accommodated in 4 four-storey blocks, all of them north facing.
- New lettings currently range from monthly gross rentals of 6,100 for first floor Units to R6,300 for ground floor Units.

6. Urban Ridge (East)

- Situated on Erven Erf 1397 Halfway Gardens Extension 79, 77 Fifth Road, Midrand, Gauteng.
- The complex comprises 184 Units, consisting of 170 two-bedroomed units with one bathroom and measuring approximately 53m² and 14 three bed-bedroomed units with two bathrooms measuring approximately 77m².
- The Units are accommodated in 13 four-storey blocks, all of them north facing.
- New lettings currently range from monthly gross rentals of R6,300 for the one-bedroomed Units to R6,700 for the two-bedroomed Units.

7. Urban Ridge (South)

- Situated on Erf 1386 Halfway Gardens Extension 54, at the corner of Smuts and 3rd Road, Midrand, Gauteng.
- The complex comprises 232 Units, all of them being two-bedroomed units with one bathroom, measuring approximately 54m². The Units are accommodated in 8 four-storey blocks, all of them north facing.
- New lettings currently range from monthly gross rentals of R6,300 for the upper floor Units to R6,500 for the ground floor Units.

3.2 PROTEA GLEN

Protea Glen is a residential complex comprising of two sectional schemes namely Protea Park and Protea Park 2 situated on Erven 8487 and 8488 Protea Glen Ext 11, along Kganwe Street in Protea Glen, Gauteng (South West of Soweto). There are 176 sections with Units varying in size from 44m² to 58m². The complex consists of several double storey walk-up buildings with ground and first floor flats. There are 156 two-bedroomed flats and 20 three-bedroomed flats in the complex with monthly gross rentals ranging between R4,000 and R5,100 per Unit.

A summary of the Properties is set out below:

Property name	Location	Gross lettable area (m ²)	Number of Units	Weighted average rental per m ² (R) ¹	Avg gross rental income per Unit (R) ¹
Res 1 Properties					
Midrand Village	Clayville, Ekurhuleni	14 280	225	111	7 034
De Velde	De Velde, Somerset West	29 330	310	106	10 031
Birchwood Village	Chartwell, JHB	26 232	360	106	7 720
Southgate Ridge	Southgate, JHB	21 972	412	107	5 680
Urban Ridge (West)	Midrand, JHB	14 907	260	112	6 393
Urban Ridge (East)	Midrand, JHB	10 140	184	117	6 465
Urban Ridge (South)	Midrand, JHB	12 472	232	122	6 544
Total Res 1 Properties		129 333	1 983	109	7 115
Protea Glen	Kganwe Street, Protea Glen, Soweto	8 480	176	95	4 600
Total incl. Protea Glen		137 813	2 159	109	6 944

1. Based on the actual gross rental income as at 31 August 2018, excluding vacancies and recoveries.

4. THE TRANSACTIONS

a. EFFECTIVE DATE

- The effective date of the Res 1 Transactions will be the first day of the month following the month in which the conditions precedent (as set out in paragraph 4(g) below) are fulfilled or waived or such other date as the parties may agree in writing, which date is anticipated to be 1 December 2018 (“**the Res 1 Effective Date**”).
- The effective date of the Protea Glen Transaction will be the date on which the Units are transferred from Sunnysshore to Transcend, from which date the ownership of the Units (and all risk and benefits in respect of the Units) will pass to Transcend. It is estimated that the effective date will be on or about 1 December 2018 (“**the Protea Glen Effective Date**”).

b. PURCHASE CONSIDERATION AND FUNDING

The total purchase consideration for the Transactions is R1.27 billion (“**Purchase Consideration**”), subject to the purchase price adjustment as set out in 4(d) below.

Property name	Cap rate	Purchase Consideration	Avg price per Unit	Valuation per Property as at 1 Oct 2018
Res 1 Properties				
Midrand Village	9,25%	139 295 212	619 090	153 300 000
De Velde	8,53%	289 144 251	932 723	337 700 000
Birchwood Village	9,66%	266 463 076	740 175	288 300 000
Southgate Ridge	11,54%	170 420 202	413 641	216 600 000
Urban Ridge (West)	10,69%	127 516 812	490 449	153 100 000
Urban Ridge East	10,50%	98 783 206	536 865	109 600 000
Urban Ridge South	10,32%	118 277 360	509 816	138 800 000
Total Res 1 Properties	9,85%	1 209 900 119	610 137	1 397 400 000
Protea Glen	10,33%	60 000 000	340 909	61 290 000
Total including Protea Glen	9,87%	1 269 900 119	588 189	1 458 690 000

1. Transaction costs for the Transactions are estimated at 1.30% of the Purchase Consideration (the “**Transaction Costs**”).

c. VALUATIONS

The Properties have been independently valued by Real Insight Valuers, independent professional valuers registered in terms of the Property Valuers Profession Act, No 47 of 2000. Details of the valuations will be included in the circular (referred to in paragraph 4(i) below) that will be distributed to shareholders in due course.

d. PURCHASE PRICE ADJUSTMENT AND RENTAL GUARANTEES

- The Res 1 Purchase Considerations are subject to an escalation of 6% per annum (pro-rated accordingly) from 1 December 2018 (“**the Price Determination Date**”) until the date of transfer of each of the respective Units comprising the Res 1 Properties.
- In terms of the Protea Glen Transaction, Sunnysshore will be providing a 12-month rental guarantee to Transcend over all the Protea Glen Units, from the Protea Glen Effective Date (being transfer date).

e. FUNDING OF THE TRANSACTIONS

The total Purchase Consideration of R1.27 billion, together with any adjustment thereto and the Transaction Costs will be settled in cash, to be funded through a combination of debt and equity as follows:

- **Debt**

Transcend will raise gearing on the Res 1 Properties and Protea Glen of approximately 60% of the Purchase Consideration, which equates to gearing of c. R771 million. Following the implementation of the Transactions, Transcend will have a Loan to Value (“LTV”) ratio of c. 53%, with the intention of reducing the LTV to a market average of 30% - 40% post implementation of Transcend’s pipeline acquisitions.

- **Equity**

Transcend intends to raise approximately R468 million of new equity by way of a vendor placement of Transcend ordinary shares (“Shares”) (“Private Placement”) and has secured commitments and an underwrite from the following parties:

- Emira Property Fund Limited (“Emira”), which, holds approximately 9% of the Shares in the Company, has irrevocably committed to acquire such additional Shares so that it will hold a minimum of 25.1% and up to a maximum of 34.9% of the Shares in issue post implementation of the Transactions, at a price of R6.29 per Share (ex-dividend) equating to a total subscription consideration of up to R279 million.
- Furthermore, Emira has provided an irrevocable commitment to Transcend (with a right of first refusal to), that for a period of 18 months from the day of the Private Placement it shall subscribe (in one or more transactions, should the Company in its discretion determine to issue more Shares, either in terms of vendor placements or issues for cash, subject to the necessary approvals) for such number of Shares as would result in Emira’s shareholding in the Company, after each such subscription, being not less than 25.1% but not more than 34.9%, at a subscription price per Share equal to the 30-day volume weighted average price up to the relevant subscription date;
- c. R189 million of equity funding for the Transactions has been underwritten in equal proportions by:
 - i) Emira (through a shareholder loan facility (“Funding Facility”)), the salient details of which include *inter alia* the following:
 - Transcend has the option to draw down on the Funding Facility post the Private Placement (“Advance Date”) and will pay interest at JIBAR plus 3.5% nacq until the Funding Facility has been repaid;
 - The Funding Facility will be repayable within 18 months from the Advance Date;
 - ii) MMA Financial International, LLC (“MMA”) (the controlling shareholder of IHS Asset Management Proprietary Limited, the asset manager of the Company) through a commitment to subscribe for Shares at R6.29 per Share (ex-dividend) should there be a shortfall in the Remaining Equity. An underwriting fee of 1.5% (excluding VAT) is payable to MMA. Given that MMA is a related party to the Company, the independent non-executive directors of the Company have passed a resolution confirming that the MMA underwriting fee is not greater than current market related fees payable in this regard.

Any additional funding requirements will be settled through Transcend’s internal cash reserves and existing debt facilities.

f. Conditions Precedent

The Res 1 Transactions are subject to fulfilment of the following suspensive conditions:

- Transcend complying with the applicable JSE Listings Requirements and, to the extent required, the JSE granting the requisite approvals of and in relation to the Transactions, unconditionally;
- Approval from Transcend's shareholders of all resolutions necessary to implement the Res 1 Transactions;
- Approval from the shareholders of IHS Res 1 of all resolutions necessary to implement the Res 1 Transactions;
- Finalisation and acceptance by Transcend of the bank debt funding agreements for a nominal amount of not less than R771 million on terms acceptable to Transcend in its sole discretion, and such debt funding agreements becoming unconditional in accordance with their terms; and
- Approval from the Competition Authorities.

The Protea Glen Transaction is subject to fulfilment of *inter alia* the following suspensive conditions:

- Transcend complying with the applicable JSE Listings Requirements;
- Approval from the shareholders of Sunnyside;
- Transcend conducting a technical investigation into and assessment of Protea Glen, the outcome of which shall be to Transcend's sole and absolute satisfaction; and
- Transcend raising the required funding to settle the purchase consideration.

g. FORECAST INFORMATION IN RESPECT OF THE TRANSACTIONS

Shareholders are advised that the forecast financial information in respect of the Transactions will be announced in due course.

h. RELATED PARTY TRANSACTIONS, CATEGORISATION AND CIRCULAR

Both Transactions constitute related party transactions for Transcend in terms of the JSE Listings Requirements due to the fact that:

- Res 1 is 95% held by the Public Sector Pension Investment Board ("**PSP**"), 4.25% effectively held by IHS s.a.r.l and 0.75% effectively by three Transcend directors - Rob Wesselo, Cathal Conaty and Robert Emslie. PSP is a Canadian Pension Fund and is currently a 45% investor in SAWHF, a material shareholder, with an 89% shareholding in Transcend; and
- SAWHF is a material shareholder of the Company as noted above.

The Protea Glen Transaction is, however, classified as a small related party transaction in terms of section 10.7 of the JSE Listings Requirements and accordingly, no Transcend shareholder approval is required. In accordance with section 10.7(c) of the JSE Listings Requirements, a copy of the valuation report relating to the Protea Glen Transaction will be available for inspection for 28 days from the date of this announcement at the offices of Transcend during normal business hours.

The Res 1 Transactions are classified as a reverse take-over in terms of the JSE Listings Requirements, and therefore are subject to the approval by a simple majority of Transcend shareholders voting on the Res 1 Transactions, excluding the related parties and their associates. A circular incorporating written resolutions in terms of Section 60 of the Companies Act 71 of 2008 and providing further details of the Res 1 Transactions will be distributed to shareholders in due course.

Given that the Res 1 Transactions are categorised as a reverse take-over, shareholders are advised that the Company will require confirmation from the JSE that it is satisfied that the Company will qualify for a continued listing on the JSE pursuant to the Res 1 Transactions.

Given that the Properties have been valued by an independent registered external valuer - Real Insight Valuers and the Purchase Consideration is being settled in cash, no additional fairness opinion is required in terms of the JSE Listings Requirements.

8. UPDATE ON PREVIOUSLY ANNOUNCED ACQUISITIONS

Shareholders are referred to the announcements released on SENS on 3 April 2018 and 12 June 2018 relating to the conclusion of agreements to acquire:

- a rental enterprise comprising 76 sectional title Units in a scheme known as Silverleaf, located at Erf 2151 Silverton Township, City of Tshwane (the “**Silverleaf Property**”) for R44.5 million; and
- a rental enterprise comprising 60 sectional title Units in a scheme known as Vanguard Residential Village 3, located at 29 Jade Street, off Klipfontein Road, Heideveld, Cape Town (“**Vanguard**”) for R33.3 million.

The Vanguard transaction has been successfully concluded, with Vanguard having transferred to Transcend on 22 August 2018.

It was initially anticipated that the Silverleaf Property would transfer on or around 30 April 2018, but due to delays in the finalisation of town-planning amendments, the transfer has not yet been effected. The Company will release a further announcement once transfer of the Silverleaf Property has been concluded.

9. RENEWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 7 September 2018 and the renewal thereof on 17 September 2018 and 4 October 2018 and are hereby advised that as the forecast financial information in respect of the Transactions remains outstanding, shareholders are advised to continue to exercise caution when dealing in the Company’s shares until a further announcement is made in this respect.

Johannesburg
8 October 2018

Corporate Advisor and Bookrunner
Tenurey BSM Proprietary Limited

Transaction Designated Advisor
Questco Proprietary Limited

Designated Advisor
Questco Corporate Advisory Proprietary Limited

Legal Advisor
Cliffe Dekker Hofmeyr Inc.

Independent Reporting Accountants and Auditors
KPMG