

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")

COMPETITION COMMISSION APPROVAL, DISCLOSURE OF FORECAST FINANCIAL INFORMATION, WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT AND DISTRIBUTION OUTLOOK

1. INTRODUCTION

Transcend shareholders ("Shareholders") are referred to the announcement released by Transcend on the Stock Exchange News Service ("SENS") on Monday, 8 October 2018 relating to the proposed acquisition by Transcend of:

- 1,983 residential units, spread across seven properties, comprising Midrand Village, De Velde, Birchwood Village, Southgate Ridge, Urban Ridge (West), Urban Ridge (East) and Urban Ridge (South) ("IHS Res 1 Properties") for a purchase consideration of R1.21 billion from International Housing Solutions Residential Partners 1 (RF) Proprietary Limited ("IHS Res 1 Transactions"); and
- 176 residential sectional title units in two sectional schemes known as Protea Glen ("Protea Glen") for R60 million ("Protea Glen Transaction") from Sunnyside Trade and Invest 105 Proprietary Limited (which is effectively 100% owned by SAWHF PVE (SA)),

collectively ("the Proposed Transactions").

2. COMPETITION COMMISSION APPROVAL

Transcend is pleased to inform Shareholders that the Competition Commission has approved the IHS Res 1 Transactions without any conditions. Shareholders will be advised when the outstanding conditions precedent to the Proposed Transactions have been fulfilled, the last of which are expected to be fulfilled by Friday, 30 November 2018.

3. FORECAST STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE IHS RES 1 PROPERTIES AND PROTEA GLEN AND THE COMBINED IHS RES 1 PROPERTIES AND PROTEA GLEN

Set out below are the separate forecast statements of profit or loss and other comprehensive income of the IHS Res 1 Properties ("IHS Res 1 Properties Forecasts") and Protea Glen ("Protea Glen Forecasts") (collectively "Forecasts") on a stand-alone basis for the one-month ending 31 December 2018 and the twelve months ending 31 December 2019 (collectively the "Forecast Periods").

The Forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the directors of Transcend ("the Directors"). The Forecasts have been reviewed and reported on by the Independent Reporting Accountants, KPMG Inc., and their unmodified report thereon is available for inspection at the registered office of Transcend and has been reproduced in the circular to be posted on or about Wednesday, 21 November 2018 ("Circular").

The Forecasts presented in the table below have been prepared in accordance with Transcend's accounting policies and in compliance with International Financial Reporting Standards.

The forecast statements of profit and loss and other comprehensive income for each of the IHS Res 1 Properties Forecasts, Protea Glen Forecasts and collectively the Forecasts:

	1	2	3	4	5	6
R'000	IHS Res 1 Properties Forecast for the one month ending 31 Dec 2018	Protea Glen Forecast for the one month ending 31 Dec 2018	Total Forecast for the one month ending 31 Dec 2018	IHS Res 1 Properties Forecast for the 12 months ending 31 Dec 2019	Protea Glen Forecast for the 12 months ending 31 Dec 2019	Total Forecast for the 12 months ending 31 Dec 2019
Property revenue	15,141	903	16,044	179,404	11,288	190,692
Rental income	14,110	747	14,857	166,334	9,329	175,663
Other income	1,031	157	1,188	13,070	1,959	15,029
Direct property costs	(5,043)	(427)	(5,470)	(60,161)	(4,963)	(65,124)
Net property operating income	10,098	476	10,574	119,243	6,326	125,568
Admin expenses	(659)	(35)	(693)	(8,086)	(423)	(8,509)
Property admin	(79)	(10)	(88)	(1,130)	(123)	(1,252)
Management fee	(580)	(25)	(605)	(6,957)	(300)	(7,257)
Operating profit	9,439	442	9,881	111,156	5,903	117,059

Fair value adjustments	179,004	869	179,872	-	-	-
Interest income	-	-	-	-	-	-
Interest expense	(5,620)	(279)	(5,899)	(67,445)	(3,345)	(70,790)
Profit before tax	182,823	1,032	183,854	43,711	2,558	46,269
Taxation expense	-	-	-	-	-	-
Profit for the period	182,823	1,032	183,854	43,711	2,558	46,269
Distributable earnings	182,823	1,032	183,854	43,711	2,558	46,269

Reconciliation between earnings and headline earnings per Share

Profit for the year attributable to shareholders	182,823	1,032	183,854	43,711	2,558	46,269
Gain / (loss) on fair value adjustment of investment properties	(179,004)	(869)	(179,872)	-	-	-
Headline earnings attributable to shareholders	3,819	163	3,982	43,711	2,558	46,269
Earnings per Share (in cents)	122.90	0.69	123.60	29.38	1.72	31.10
Headline earnings per Share (in cents)	2.57	0.11	2.68	29.38	1.72	31.10
Weighted average number of shares in issue	148,755	148,755	148,755	148,755	148,755	148,755

Summarised notes and assumptions

Summarised notes and assumptions in relation to the Forecasts are set out below. Full notes and assumptions have been included in the Circular.

The Forecasts have been prepared based on the following assumptions:

- 82,449,464 new shares (arising out of a proposed underwritten private placement ("**Subscription Shares**")) will rank for dividends with effect from 1 December 2018.
- An amount of R518,607,129 is raised through the issue of the 82,449,464 subscription shares at an issue price of R6.29.
- An amount of R777,910,694 of debt will be funded through the securing of new debt facilities from Standard Bank and Nedbank for the IHS Res 1 Transactions and a new debt facility for the Protea Glen Transactions to be funded by Standard Bank.
- The conditions precedent to the Proposed Transactions are expected to have been met by the effective date, being 1 December 2018 ("**Effective Date**"), and, therefore, it is assumed that the risks and rewards of ownership will have transferred to Transcend by this date. As a result, Transcend will recognise 100% of the income and expenditure from the IHS Res 1 Properties and Protea Glen by this date including all IHS Res 1 and Protea Glen units to be transferred from the Effective Date.
- All the properties in the IHS Res 1 Properties and Protea Glen are revenue generating and are held as investment properties.

Twelve-month lease agreements – contracted revenue:

- Contracted rental revenue has been determined for each property based on the starting dates of each existing twelve-month lease agreement IHS Res 1 concluded with the tenants in respect of the apartments as part of the IHS Res 1 Properties ("**IHS Res 1 Leases**").
- Based on the average historical occupancy profile for the IHS Res 1 Properties of 15 months, the forecast includes rental revenue for an additional period of 3 months subsequent to the expiry of the twelve-month IHS Res 1 Leases in the category of contracted rental revenue.

Month-to-month lease agreements - contracted revenue:

- The initial period of contracted rental revenue includes the first 21 business day period of rental revenue from all month-to-month IHS Res 1 Leases in existence on 1 December 2018.
- The renewal period rental revenue has been determined for the IHS Res 1 Properties based on the existing month-to-month IHS Res 1 Leases and the average historical occupancy profile of 15 months.
- The rental revenue subsequent to the rental guarantee period (i.e. 1 December 2018 to 30 November 2019) (the "**Rental Guarantee Period**") has been determined for Protea Glen in respect of the one-month period from 1 to 31 December 2018 based on the existing month-to-month Protea Glen Leases and the average historical occupancy profile of 27 months. In addition, the recoveries relating to Protea Glen have been determined for the full Forecast Periods based on the revenue categorisation of the related Protea Glen Lease agreement and an average historical occupancy profile of 27 months.

Guaranteed revenue - contracted revenue:

- The net rental revenue in respect of Protea Glen is underwritten by a 100% rental guarantee from the Effective Date the Rental Guarantee Period. This guarantee effectively underwrites the gross rental income net of a vacancy provision of 7.5%.

Uncontracted revenue:

1. Uncontracted rental revenue has been calculated as the total potential rental revenue that could be generated if all the IHS Res 1 Properties were tenanted less a vacancy allowance less contracted revenue. The vacancy allowance has been calculated on a property-by-property basis taking into account the experience of the executive management team and available historical data for each of the IHS Res 1 Properties. The average vacancy allowance for the IHS Res 1 Properties, excluding Midrand Village and De Velde, is 5%. The average vacancy for Midrand Village and De Velde is 8%.
2. The vacancy allowance takes into account the anticipated void period prior to a unit being re-tenanted and a bad debts provision for the IHS Res 1 Properties.
3. Uncontracted revenue in respect of recoveries and Protea Glen for the one-month ending 31 December 2019 has been determined based on points 1 and 2 above. The average vacancy for Protea Glen is 7.5%.

Escalations:

The forecast average annual rental escalations for the IHS Res 1 Properties ranges from 0% to 4% for the six months ended 30 June 2018, 1% to 5% for the twelve months ending 31 December 2018 and 1% to 5% for the twelve months ending 31 December 2019.

Other income:

Recoveries of operating costs are recognised as part of revenue and the related costs are recognised as part of property operating expenses.

Expenditure:

A comparison of the forecast and historical expenditures on an annualised basis, incurred on an aggregated basis for the IHS Res 1 Properties and Protea Glen for the six months ended 30 June 2018 and the twelve-months ended 31 December 2017, was conducted. No expenditure items are forecast to increase by 15% or more for the twelve-months ended 31 December 2019.

Assumptions that are not under the control of the Directors

Bad debts will remain at the level experienced for the six-months ended 30 June 2018 and the twelve-months ended 31 December 2017, being an average of 1.5% and 2% of total revenue, respectively.

No increase or decrease in the fair value of the IHS Res 1 Properties and Protea Glen will occur during the Forecast Periods other than the fair value adjustments arising due to the purchase considerations of both the IHS Res 1 Properties and Protea Glen being at a discount to the fair values.

Finance costs are calculated using an effective interest rate of 9.1% (based on three facilities, being: a three-year facility of JIBAR plus 190 bps, five-year facility of JIBAR plus 225 bps and a facility of prime minus 1 percentage point) for the Forecast Periods or the purposes of the IHS Res 1 Properties Forecasts, Protea Glen Forecasts and collectively the Forecasts.

4. OUTLOOK

Further to Transcend's interim results for the six months ended 30 June 2018 as announced on SENS on 24 August 2018, the Directors revised Transcend's forecast distribution to flat growth for the 2018 financial year primarily due to the poor performance of Acacia Place, which was directly attributable to higher vacancies on bulk lease renewals and lower rentals for Acacia Place. Taking the Proposed Transactions into account as well as the other transactions announced by Transcend (i.e. the acquisition of Silverleaf and Vanguard and the disposal of Acacia Place), the Directors expect to achieve distribution growth of approximately 3% for the December 2019 financial year ("**2019 Distribution Outlook**").

The above 2019 Distribution Outlook, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the Directors. The 2019 Distribution Outlook has not been reviewed or reported on by the Independent Reporting Accountants.

5. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 7 September 2018 and the renewal thereof on 17 September 2018, 4 October 2018 and 8 October 2018 and are hereby advised that, as the forecast financial information in respect of the Proposed Transactions has been disclosed, the cautionary announcement is hereby withdrawn. Accordingly, Shareholders are no longer required to exercise caution whilst trading in the shares of Transcend.

Johannesburg
19 November 2018

Corporate Advisor and Bookrunner
Tenurey BSM Proprietary Limited

Transaction Designated Advisor
Questco Proprietary Limited

Designated Advisor
Questco Corporate Advisory Proprietary Limited

Legal and Competition Law Advisor
Cliffe Dekker Hofmeyr Inc.

Independent Reporting Accountants and Auditors
KPMG Inc.