



Stor-Age Property REIT Limited  
Incorporated in the Republic of South Africa  
Registration number 2015/168454/06  
Share code: SSS ISIN ZAE000208963  
(Approved as a REIT by the JSE)  
(**"Stor-Age"** or **"the Company"**)

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**PROPOSED ACQUISITION OF BETTERSTORE SELF STORAGE HOLDINGS LIMITED AND RENEWAL OF  
CAUTIONARY ANNOUNCEMENT**

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## **1. INTRODUCTION**

The directors of Stor-Age (**"the Board"**) are pleased to advise shareholders that the Company has entered into a sale and purchase agreement (**"the SPA"**) in terms of which Stor-Age will acquire, by way of a series of inter-dependent transactions, 97.3% of the issued share capital of Betterstore Self Storage Holdings Limited (**"Storage King"** or **"the Storage King Group"**) from CS Capital Partners III, LP, a fund managed by Cabot Square Capital LLP (**"Cabot"**), and the management of the Storage King Group (**"Management"**) (collectively, **"the Vendors"**), (**"the Proposed Transaction"**).

Storage King presents an excellent platform opportunity for Stor-Age to enter into the UK self storage market. The Proposed Transaction accords with Stor-Age's strategy of entering international self storage markets with growth potential through an established industry participant with local expertise.

## **2. RATIONALE**

Stor-Age is the largest and most recognisable self storage property fund and brand in South Africa. The successful listing of Stor-Age on the JSE in November 2015 brought to market a highly specialised, low-risk, income paying self storage REIT with an attractive growth in distributions profile, underpinned by strong operating metrics. Stor-Age is one of nine publically traded self storage REITs in the world and the first to list on any emerging market exchange.

In order to progress the Company's growth strategy, Stor-Age has invested significant time in international self storage markets over the previous decade, concluding research, acquiring knowledge and establishing strong relationships with international peers, including in the UK.

The UK self storage market represents a significant growth opportunity. It is characterised by a relative undersupply in comparison to the more established Australian and US markets – supply per capita is at 0.64 square foot (“sqf”) (Australia 1.8 sqf per capita and the US 7.8 sqf per capita). Further, post Brexit the UK self storage sector has been viewed as an attractive investment given the defensive nature of the underlying asset class. The UK market is governed by a language, culture, business practices and banking and legal systems that are familiar to South Africans.

Storage King owns a high quality property portfolio with a proven track record of year-on-year growth in earnings and in the underlying portfolio since the global financial crisis in 2008/9. Management has collective experience in the UK self storage industry dating back to 1989 and will, as part of the Proposed Transaction, acquire the remaining 2.7% in Storage King on the same terms as the Company.

The acquisition of Storage King therefore represents an excellent entry point into the UK market as well as a scalable platform for Stor-Age to further grow its offshore portfolio in the UK.

Post conclusion of the Proposed Transaction, Stor-Age will maintain a South Africa-centric focus at a c. 65:35 geographical percentage split, by value, between South Africa and the UK. (When taking into account Stor-Age's pre-emptive right to acquire properties in its own Managed Portfolio<sup>1</sup>, the weighting to South African assets by value increases to approximately 70%). In addition, the Proposed Transaction provides a Rand hedge on a significant portion of future earnings generated from the investment.

### **3. OVERVIEW OF STORAGE KING**

The sixth largest self storage brand in the UK, Storage King is also a top 5 global self storage brand (outside of the USA).

The Storage King Group originally entered the UK market in 2006 (with franchise stores using the Storage King brand) following its success in Australasia. In July 2010 the Storage King Group acquired the UK and European brand rights into perpetuity.

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<sup>1</sup> Stor-Age's portfolio comprises 44 self storage properties across South Africa. Stor-Age owns and operates 31 of these properties, comprising 233 000m<sup>2</sup> of GLA and R2.1 billion in value. The balance comprises 73 000 m<sup>2</sup> of GLA and makes up the unlisted portfolio (“Managed Portfolio”) from which Stor-Age receives property and asset management fees. Stor-Age holds a pre-emptive right to acquire all properties in the Managed Portfolio.

The Storage King Group currently owns 13 well-located properties (“**Core Portfolio**”) throughout England with a bias towards the South East and East: specifically, eight freehold properties and five leasehold properties with an average 17 year unexpired lease-term.

Positioned near to key market towns and major arterial roads, the 13 properties currently offer c. 542 000 sqf of Gross Lettable Area (“**GLA**”), with an average occupancy of 78% and an average rental rate of £22.76 per sqf per annum. On full fit-out, the GLA will increase to 577 000 sqf.

In addition to the Core Portfolio, a further 12 properties trade under license of the Storage King brand, generating license and management fee revenue. In total this represents 25 properties trading under the Storage King brand.

Further, Storage King has entered into two sale and purchase agreements to potentially acquire two self storage properties situated in Crewe and Stafford, both of which agreements remain subject to final approval by Stor-Age following completion of the Proposed Transaction. Further details are set out in paragraph 5 (d) below.

The specialist, experienced management team will remain in place and invested as a minority shareholder. The in-place acquisitions team is a key asset with a well-researched and defined acquisitions strategy that has proven effective to date.

Going forward Stor-Age will seek to add value to Storage King’s operating platform and systems, existing capital management and property and marketing skill sets, as well as drive and optimise synergies in support services and systems over the medium term.

#### **4. OVERVIEW OF UK SELF STORAGE SECTOR**

A growing, fragmented industry, the UK self storage market has relatively low consumer awareness and penetration, which are anticipated to increase as the industry matures. In line with the strength of the asset class generally, the industry has proven resilient to date despite macro challenges such as the global financial crisis of 2008/9 and the introduction of VAT on self storage rentals in 2012. Within the context of uncertain economic conditions as the UK approaches Brexit, the industry remains well positioned for growth with strong fundamentals and limited new entrants.

The key features of the UK self storage market include<sup>2</sup>:

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<sup>2</sup> Source: Self Storage Association UK Annual Industry Report 2017

- 1 430+ self storage properties, offering c. 42.2 million sqf of space
- Average facility size of 29 470 sqf and average unit size of 69.1 sqf
- Average occupancy level of 75.8% of GLA, up from 73.1% in 2015
- Occupancy growth indicates that demand is growing faster than supply
- Industry average net rental rate of £22.68 per sqf per annum for the 2016 calendar year (2015: £22.15; and 2014: £21.00)
- Market still relatively immature – supply per capita of 0.64 sqf (vs. Australia 1.8 sqf per capita, US 7.8 sqf per capita)
- New openings – 25 new properties opened in 2016 (significantly up on 2014 and 2015) and c. 25 - 40 new properties expected to open in 2017
- UK holds 47% of the total European self storage market.

The growth drivers for the UK self storage market include:

- Incremental growing awareness of self storage in the UK
- Ongoing densification of metropolitan living areas
- Increasing trend towards self-employment and start-ups
- Increasing mortgage availability and low interest rates driving growth
- Low unemployment levels

## 5. THE PROPOSED TRANSACTION

### a. EFFECTIVE DATE

The Effective Date of the Proposed Transaction will be the settlement date under the SPA which, subject to fulfilment of the conditions precedent set out in paragraph 7 below, is expected to occur on or about 31 October 2017.

### b. PURCHASE CONSIDERATION

On the Effective Date, the Company will pay the initial purchase consideration (“**Initial Purchase Consideration**”) for the shares in Storage King, calculated as follows:

- Base consideration amount of £77.13 million, being the agreed value of the Core Portfolio (including the license and management fee revenue from franchise and managed stores);
  - *Less* a net debt amount of £25 million;
  - *Plus* (if the amount is positive) or *Less* (if the amount is negative) an amount for the net working capital of the Storage King Group.
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On the basis of an estimated working capital amount of £2.68 million, the Initial Purchase Consideration payable by the Company for 97.3% of the issued shares of Storage King is estimated to be £53.29 million.

In addition to the Initial Purchase Consideration, the Company is required to pay the Vendors a deferred consideration should Storage King's actual earnings before tax, depreciation and amortisation ("**EBITDA**") (which includes a full deduction of leasehold rental expenses) of the Core Portfolio (excluding the EBITDA of Chester, further details of which are set out in 5(c)) for the 12 month period after the Effective Date exceed EBITDA of £4.475 million, capitalised at 6.0% ("**Deferred Consideration**").

### c. CORE PORTFOLIO AND CREWE

Details of the properties comprising the Core Portfolio and Crewe, including property name, physical address, rentable area, weighted average rental per sqf (“**psf**”) and the valuation attributed to each property, are set out in the table below.

The properties comprising the Core Portfolio and Crewe have been valued as at 30 April 2017 by independent, external property valuers, as defined in section 13 of the JSE Listing Requirements, being Oliver Close and Charles Smith from Cushman and Wakefield LLP.

<b>Property name</b>	<b>Physical address</b>	<b>Property description, use and freehold / leasehold</b>	<b>Effective date of acquisition (2017)</b>	<b>Weighted average rental psf (£)</b>	<b>Maximum lettable area adopted (sqf)</b>	<b>Valuation<sup>3</sup>(£'m) as at 30 April 2017</b>
Aylesford	Units 2&3, Bellingham Way, Aylesford Kent ME20 7HP	Storage facility Leasehold	31 October	19.11	43,950	2.240
Basildon	Unit 1, Carnival Close, Festival Leisure Park, Basildon Essex SS14 3WN	Storage facility Leasehold	31 October	20.72	45,476	2.850
Cambridge	505 Coldhams Lane, Cambridge Cambridgeshire CB1 3JS	Storage facility Freehold	31 October	20.70	63,956	11.040

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<sup>3</sup> This table has been prepared for summary purposes only and should not be relied on by any person. The information contained in this table is subject to the assumptions, conditions and caveats contained in Cushman and Wakefield LLP's full valuation report, which is in the process of being prepared in respect of the Core Portfolio and Crewe. A copy of the full valuation report will be made available for inspection at the time the circular is issued to shareholders.

Chester <sup>4</sup>	One Hartford Way, Sealand Industrial Estate, Chester CH1 4NT	Storage facility Freehold	31 October	20.59	22,518	3.920
Dartford	599-613 Princes Road, Dartford Kent DA2 6HH	Storage facility Freehold	31 October	21.68	50,360	10.650
Derby	8 Hansard Gate, West Meadows Industrial Estate Derby DE21 6AR	Storage facility Freehold	31 October	15.89	56,330	7.510
Doncaster	1 Carriage Drive, Corner of White Rose Way Doncaster, South Yorkshire MK2	Storage facility Freehold	31 October	13.23	38,787	4.280
Dunstable	Unit 1, Nimbus Park Porz Avenue, Dunstable, Bedfordshire LU5 5WZ	Storage facility Leasehold	31 October	18.27	37,770	0.990
Epsom	Units 5&6 Epsom Trade Park, Blenheim Road Epsom, Surrey KT19 9AP	Storage facility Leasehold	31 October	24.10	33,730	2.570
Gloucester	Unit 3, Barnwood Point, Corinium Avenue Gloucester GL4 3HX	Storage facility Freehold	31 October	15.98	43,840	3.940
Milton Keynes	39 Barton Road, Water Eaton Industrial Estate Bletchley, Milton Keynes MK2 3HW	Storage facility Freehold	31 October	17.83	40,062	5.570

<sup>4</sup> The Storage King Group entered into a legal binding agreement on 31 August 2017 to acquire an additional parcel of land (c. 0.7 acres in size) adjoining the Chester property described in the table above. The valuation reported below for Chester of £3.92 million includes a value of £0.3 million ascribed to the additional parcel of land and is based on the Special Assumption that the additional parcel of land was owned by Storage King at 30 April 2017.

Oxford	Bobby Fryer Close, Garsington Road Oxford OX4 6ZN	Storage facility Freehold	31 October	20.11	64,730	9.190
Woodley	Unit 5, Base 329, Headley Road East Woodley, Reading, Berkshire RG5 4AZ	Storage facility Leasehold	31 October	19.11	46,744	1.790
<b>Total Core Portfolio (excluding Crewe)</b>					<b>588,253</b>	<b>66.540<sup>5</sup></b>
Crewe <sup>6</sup>	Unit 2 and 3 at the Railway Exchange, Weston Road, Crewe, CW1 6AA	Storage facility Freehold	30 November	20.00	47,000	6.890
<b>Total (including Crewe)</b>					<b>635,253</b>	<b>73.430</b>

<sup>5</sup> The independent valuation of the Core Portfolio (excluding Crewe but including the additional land at Chester, with the Special Assumption on ownership detailed in footnote 3 above) of £66.54 million is after the deduction of notional purchaser's costs. Purchaser's costs in the range of circa 5.7% to 6.7% have been assumed initially and sale plus purchaser's costs in the range of 8.6% to 8.75% are assumed on the notional sales in the tenth year in relation to the freehold properties. Cushman and Wakefield LLP carried out a valuation on a Special Assumption assuming no purchaser's costs, and this results in a higher property valuation of the Core Portfolio (excluding Crewe but including the additional land at Chester, with the Special Assumption on ownership detailed in footnote 3 above) at 30 April 2017 of £72.95 million.

<sup>6</sup> The Storage King Group has entered into sale and purchase agreement to potentially acquire a self storage property situated in Crewe which remains subject to final approval by Stor-Age following completion of the Proposed Transaction. Further details are set out in paragraph 5 (d) below. The valuation reported in the above table for Crewe of £6.890 million is based on the Special Assumption that the property was owned by Storage King at 30 April 2017.

#### d. BOOST PORTFOLIO

The Storage King Group has entered into two sale and purchase agreements to acquire two self storage properties situated in Crewe and Stafford (known respectively as “**Crewe**” and “**Stafford**”), (collectively, the “**Boost Portfolio**”). The Stafford self storage property is yet to be constructed.

Following conclusion of the Proposed Transaction, Stor-Age will have full discretion as to whether or not to complete the acquisitions of any or either of the Boost Portfolio properties. To the extent that Stor-Age chooses to acquire any or either of the properties comprising the Boost Portfolio, Stor-Age will be required to pay the vendors of the Boost Portfolio the amounts for the properties comprising the Boost Portfolio plus premiums, as set out in the table below.

<b>Boost Portfolio properties</b>	<b>Boost Portfolio Consideration (£'m)</b>	<b>Purchase premium (£'m)</b>	<b>Expected date of acquisition</b>	<b>Details of the property</b>
Crewe Unit 2 and 3 at the Railway Exchange, Weston Road, Crewe, CW1 6AA,	6.875	0.864	On or about 30 November 2017	Refer to details under paragraph 5(c) above
Stafford Plot 2B, Redhill Business Park, Stone Road, Stafford	3.375	0.424	On or about 30 September 2018	Stafford is still to be constructed

#### 6. FINANCING AND FUNDING OF THE PROPOSED TRANSACTION

As part of the Proposed Transaction, Storage King will refinance its existing bank facility of £17 million with a new facility of £25 million. The SPA provides for Stor-Age to fund the Initial Purchase

Consideration through an optimal mix of equity and debt and provides for the Initial Purchase Consideration to be part funded through the issue of up to 89 million shares in the Company.

To the extent a Deferred Consideration becomes payable, it will be funded using available internal cash resources and banking facilities at the time.

## **7. CONDITIONS PRECEDENT**

The Proposed Transaction is subject to fulfilment of the following conditions precedent, as set out in the SPA:

- Stor-Age complying with the applicable JSE Listings Requirements and, to the extent required, the Johannesburg Stock Exchange Limited granting the requisite approvals of and in relation to the Proposed Transaction, unconditionally;
- Approval from Stor-Age's shareholders of all resolutions necessary to implement the Proposed Transaction;
- Finalisation and acceptance by Storage King of the debt funding agreement for a nominal amount of not less than £25 million on terms acceptable to Stor-Age in its sole discretion, and such debt funding agreement becoming unconditional in its terms; and
- Stor-Age confirming in writing to the Vendors that it has successfully raised cash through the issue of new shares in the Company, to the extent that it deems optimal, towards the settlement of the Initial Purchase Consideration.

## **8. FORECAST INFORMATION IN RESPECT OF THE PROPOSED TRANSACTION**

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

## **9. RENEWAL OF CAUTIONARY ANNOUNCEMENT**

Shareholders are referred to the cautionary announcement released by the Company on SENS on 8 June 2017 and the subsequent renewal of cautionary dated 21 July 2017 regarding the proposed acquisition by Stor-Age of DanCor Properties Proprietary Limited (“**the DanCor Acquisition**”). DanCor currently trades from four locations under the name StorTown in the Durban region with a portfolio comprising c. 22,000m<sup>2</sup> GLA. Shareholders are advised that discussions are ongoing in respect of this matter.

Accordingly, given that discussions are ongoing in respect of the DanCor Acquisition, and that the forecast financial information in respect of the Proposed Transaction remains outstanding, shareholders are advised to continue to exercise caution when dealing in the Company’s shares until further announcements are made in this respect.

## **10. CATEGORISATION OF THE PROPOSED TRANSACTION AND SHAREHOLDER APPROVAL**

In terms of the JSE Listing Requirements the Proposed Transaction is classified as a Category 1 acquisition and will require Stor-Age shareholder approval. Accordingly, a circular, disclosing further details of the Proposed Transaction and incorporating a notice of general meeting in order for shareholders to pass the necessary resolutions to implement the Proposed Transaction, will be posted to Shareholders in due course.

## **11. MEMORANDUM AND ARTICLES OF ASSOCIATION OF STORAGE KING**

Stor-Age undertakes to ensure that nothing contained in the constitutional documents of the Storage King Group will frustrate Stor-Age in any way from compliance with its obligations in terms of the JSE Listings Requirements or relieve Stor-Age from compliance with the JSE Listings Requirements.

Johannesburg

5 September 2017

Financial Advisor and Transaction Sponsor  
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