



**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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## **DEVELOPMENT OF CRAIGHALL SELF STORAGE PROPERTY IN TERMS OF THE CPC STRUCTURE**

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### **1. INTRODUCTION**

The board of directors of Stor-Age ("the Board") is pleased to advise shareholders that the Company has entered into a transaction as fully described in paragraph 2 below for the development and subsequent acquisition of a new self storage property in Craighall, Johannesburg ("the Transaction").

The Transaction structure aligns with the Company's stated "measured approach" to the risk profile of new developments, which focuses on opportunity while limiting downside risk for the Company's distributions growth profile over the medium term.

The Transaction is classified as a related party transaction in terms of the JSE Listings Requirements ("Listings Requirements"), with an associate entity of Stor-Age executive directors GM Lucas, SC Lucas and SJ Horton - Stor-Age Property Holdings Proprietary Limited ("SPH") - as set out in more detail in paragraph 10 below, Related Parties.

The Transaction has been approved by the Company's independent non-executive directors, supported by an independent property valuation by a third party professional valuer and a fairness opinion by an independent third party professional expert.

### **2. THE AGREEMENTS**

The Company has entered into a Development and Sale Agreement ("the Agreement"), dated 7 December 2017 ("Signature Date"), with SPH in terms of which:

- a) SPH will develop the Phase I buildings and all related parking and other facilities and amenities ("the Development") on Erf 222 Craighall measuring 2 393 square metres ("the Property") and then sell the Property to Stor-Age; and
- b) SPH will guarantee in favour of Stor-Age the rental of R152 per square metre for a period of 48 months commencing on the date on which the first tenant becomes liable for the payment of rental ("the Rental Guarantee").

### **3. DEVELOPMENT AND ACQUISITION STRUCTURE**

The Agreement to develop and acquire the Property forms part of a development and acquisition structure, known as a Certificate of Practical Completion Structure ("CPC"), which is in line with the previously announced (4 July 2017) Bryanston CPC development and acquisition. The CPC Structure is rooted in US Self Storage REIT 'Certificate of Occupancy' deals, of which there is significant favourable precedent.

The CPC Structure is:

- a non-dilutionary development structure for Stor-Age;
- subject to strict independent and regulatory controls; and
- not intended to detract from the long-term goal of developing all new properties within Stor-Age.

Further information in respect of the CPC Structure has been made available as part of the Craighall CPC Presentation, which is available at <http://investor-relations.stor-age.co.za/Results-Presentations>.

#### 4. **RATIONALE FOR THE TRANSACTION**

The listing of Stor-Age on the JSE in November 2015 was promoted by three equal joint venture partners, namely SPH, Growthpoint Limited and Faircape Proprietary Limited (collectively “the Promoters”). Given the income paying structure of a JSE REIT, at the time of the listing a decision was made to bring certain recently-opened properties into Stor-Age only when they approached a mature level of occupancy. The Promoters continue to own these properties equally as part of the portfolio managed by Stor-Age (the “Managed Portfolio”). Stor-Age has a pre-emptive right of acquisition over all properties in the Managed Portfolio and earns property and operating management fees for managing them.

On listing, the Board took a strategic decision to discontinue the growth of the Managed Portfolio and focus on the growth of the listed portfolio. Consequently, the Company developed a structure by which it can continue growing its property portfolio, but without diluting distributions growth.

The rationale for the CPC Structure and Transaction is set out below:

- New self storage developments are 100% speculative:
  - there is no pre-tenanting of space prior to opening;
  - lease-up periods are lengthy and can range from 3-5 years; and
  - the economic cost of lease-up is significant relative to the total formation-cost of the asset;
- There is a significant opportunity in the South African market to develop high profile properties in prime locations, however the development of these properties within the existing REIT structure would currently be dilutionary and impact the Company’s distribution growth profile;
- There is total pricing transparency, in that the purchase price and timing are confirmed upfront;
- The development and lease-up risk profiles are significantly diminished for Stor-Age, with:
  - all development cost savings flowing to Stor-Age; and
  - potential cost-overruns being for the account of SPH;
- The Transaction is underpinned by commercial substance through both parties being motivated to deliver and an alignment of interests;
- The CPC structure allows Stor-Age to:
  - expand immediately in line with its five-year growth strategy while focusing on further initiatives to continue strengthening the balance sheet in order to support future expansion; and
  - extend its position as the market leader in the sector in key target locations where acquisition opportunities are not available; and
- The underlying structure of the CPC deal has significant recent international precedent.

#### 5. **PURCHASE CONSIDERATION**

The total purchase consideration (excluding VAT) payable by Stor-Age to SPH in respect of the Transaction is R95 070 288 (“Development Price”), made up as follows:

- a) R14 200 000 by way of a refundable deposit (“the Deposit”) payable by Stor-Age to SPH within 5 business days after demand therefor by SPH (which demand SPH shall be entitled to make after its conveyancers confirm to it in writing that it is anticipated that the conveyancing documents necessary to procure transfer of ownership of the property in the name of SPH will be lodged for registration in the applicable Deeds Registry Office within a period of 5 business days). SPH will be entitled to utilise the Deposit as part of the security for development funding and/or towards settlement of the Sale Price;
- b) R63 158 409 in cash on the date of the practical completion of Phase 1 (“Effective Date”) against the issue by the architect of a Certificate of Practical Completion (“CPC”) of Phase I (the “CPC Portion”); and

- c) R17 711 879 as the Rental Guarantee, in cash on the date from which rental becomes payable by a tenant of the Property for the first time.

Included within the amount of the CPC Portion is the maximum (capped) developer's margin payable to SPH of R5 060 830 (the "Developer's Margin"). This equates to c.7% of the total budgeted development cost for Phase 1 of the Development, pre Developer's Margin, of R72 297 579 ("Development Budget") agreed to by Stor-Age and SPH.

The Developer's Margin may be settled either in cash or by the issue of as many Stor-Age ordinary shares as are equal in value thereto, based on the 30-day volume weighted average price as at the Effective Date, but subject to a maximum number of shares issued of 1 265 207.

The cash required for the Development Price may be raised by Stor-Age, in whole or in part, by way of a vendor placement of as many Stor-Age ordinary shares as may be required to discharge this obligation.

In consideration for its right to utilise the Deposit, SPH shall pay Stor-Age a raising fee equal to R318 754 (excluding VAT), plus interest, calculated at a rate of prime less 0.5% per annum, capitalised monthly for the period from date of receipt of the Deposit until the Effective Date.

Within 90 days (or such later date as agreed between the parties) of the Signature Date, SPH shall procure that the architect furnishes both it and Stor-Age with a certificate certifying the total construction cost of Phase 1 of the Development, which amount will be included in the final account.

In the event that the cost of the Development, pre Developer's Margin:

- is less than the Development Budget, the Development Price shall be reduced by an amount equal to the difference between the two amounts, such that Stor-Age benefits from all cost savings; or
- exceeds the Development Budget, the Development Price shall not be increased (SPH being liable for any cost overruns).

## 6. INFORMATION RELATING TO THE PROPERTY

The development forms part of Stor-Age's five-year strategy to develop and own self storage properties in prime, high visibility locations in key suburbs in target cities across South Africa.

The Property is well-located to serve the residential areas of Craighall, Craighall Park, Hyde Park, Dunkeld and Blairgowrie, with the broader catchment areas characterised by dense living spaces. The Property is further supported by an established retail and business corridor along Jan Smuts Avenue.

Property specifics:

- Location: Jan Smuts Avenue, Craighall
- Area: 2 393 square metres
- Valuation: (note 1) R19 million

Note 1 - An independent external valuation has been obtained from Mills Fitchet Magnus Penny & Wolffs (trading as Magnus Penny Associates CC) in respect of the Property ("Independent Valuation"), which valuation was undertaken by Mr MRB Gibbons, a Professional Valuer, registered without restriction in terms of the Property Valuers Profession Act, No. 47 of 2000. The value attributed thereto as at 1 August 2017 has been derived from the direct comparable sales method. The current aggregate weighted average rental per square metre of the Property is Rnil.

## 7. VALUE OF ASSETS AND PROFIT ATTRIBUTABLE TO THE PROPERTY

The value of the assets that are the subject of the Transaction as at 1 August 2017 is R19 million in terms of the Independent Valuation (which would constitute fair value in terms of International

Financial Reporting Standards). The net profits attributable to the assets that are the subject thereof, for the twelve month period ended 31 July 2017, was Rnil.

Shareholders are warned that the above financial information has not been reported on by the auditors of Stor-Age and nor has the financial information been previously published. The Board is however satisfied as to the quality of the Independent Valuation on which this financial information has been based.

**8. CONDITIONS PRECEDENT**

The Transaction is conditional, *inter alia*, upon the fulfilment (or waiver, where applicable) of the following conditions precedent:

- by not later than 17h00 on the Signature Date, the shareholders of SPH have passed a special resolution as required in terms of section 112 read with section 115 of the Companies Act, No 71 of 2008 approving the Transaction;
- SPH obtaining, within 21 days after the Signature Date, a loan from a financial institution in an amount of not less than R56 000 000 against security of a first mortgage bond over the Property;
- Stor-Age furnishing SPH, within 21 days after the Signature Date, with one or more irrevocable and unconditional bank guarantees in terms of which the Development Price is secured;
- Within 30 days of the Signature Date, the Development and Sale Agreement becoming unconditional; and
- All regulatory requirements being complied with and all relevant board approvals being obtained by both Stor-Age and SPH.

**9. EFFECTIVE DATE**

The Effective Date of the Transaction will be the date of the practical completion of Phase 1, which is expected to be on or about 1 April 2019.

**10. RELATED PARTIES**

Stor-Age directors (and related parties), Messrs. GM Lucas, SC Lucas and SJ Horton, have an aggregate effective beneficial interest in SPH of 73.33% and accordingly, in terms of paragraph 10.1(b) of the Listings Requirements, SPH is an associate of related parties (the "Related Party").

**11. CATEGORISATION AND INDEPENDENT EXPERT OPINION**

The Transaction constitutes a small related party transaction in terms of the Listings Requirements. Accordingly, an independent expert opinion ("Opinion") has been obtained, which declares the Transaction to be fair as far as the shareholders of the Company (excluding the Related Party and its associates) are concerned. A copy of the Opinion has been provided to and approved by the JSE Limited, which Opinion will be open for inspection for 28 days from the date hereof at the registered office of the Company and the Johannesburg office of its Sponsor, Questco Corporate Advisory Proprietary Limited.

**Cape Town**

7 December 2017

Registered office of the Company: 216 Main Road, Claremont, Cape Town.

Johannesburg office of Questco Proprietary Limited: First Floor, Yellowwood House, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston.

Sponsor and Corporate Advisor



Questco Corporate Advisory Proprietary Limited