GCR GLOBAL CREDIT RATING CO.
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Investec Property Fund Limited
R450m Senior Secured Notes

South Africa Structured Finance Surveillance Report — 15 March 2013

Security class	Amount	Rating scale	Rating[1]	Outlook	Next review
Senior Secured Notes	R450m	National	AA-$_{(ZA)(sf)}$	Stable	March 2014

Key counterparties:

Issuer:
Investec Property Fund Ltd ("**IPF**")
Security SPV:
Investec Property Fund Security SPV (Pty) Ltd (RF)
Trustee of Security SPV Owner Trust:
GMG Trust Company (SA) (Pty) Ltd
Manager:
Investec Property Ltd ("**Investec Property**")
Property Manager:
Growthpoint Management Services (Pty) Ltd
Settlement Agent:
Nedbank Ltd ("**Nedbank**")
Paying Agent/Transfer agent/Arranger
Investec Bank Ltd ("**Investec**")
Account Banks:
Investec and Nedbank

Summary of Transaction:

Asset class	Secured Notes
Rating Senior Notes	'AA-$_{(ZA)(sf)}$'
Senior Notes aggregate issuance amount	R450m
LT senior unsecured rating of the Issuer	'A-$_{(ZA)}$'
Status	Senior secured by real estate assets
OMV of properties	R881m at 01 Apr'12

Capital Structure of Senior Notes at Closing:

Stock code	Amount	Coupon	Maturity date
IPF01	R134m	3M Jibar + 1.4%	13 Apr'15
IPF02	R40m	3M Jibar + 1.55%	13 Apr'16
IPF03	R50m	3M Jibar + 1.65%	13 Apr'17
IPF06	R226m	8.8%	13 Apr'17

Interest payment frequency	Quarterly for IPF01-IPF03, semi-annual for IPF06
Principal payment frequency	Bullet
Negative pledge applicable	Yes
Cross default applicable	Yes
Early redemption possible	Yes, tax related
Listing	Yes, JSE Ltd
Closing date	13 April 2012

Related research:

- Global Structurally Enhanced Corporate Bonds Rating Criteria (Feb'13)
- Criteria for Rating Property Funds
- IPF Property Fund R450m Secured Notes New Issuance Report (April'11)
- IPF Corporate Rating Report (Nov'12)

GCR contacts:

Mark Vrdoljak/Tinashe Nyautore
+27 11 784-1771
markvrd@globalratings.net
nyautore@globalratings.net

Emma Jane Fulcher
Head of Structured Finance
fulcher@globalratings.net

Website: www.globalratings.net

Transaction Summary

Global Credit Ratings ("**GCR**") has upgraded and affirmed the *final, public* long term rating of 'AA-$_{(ZA)(sf)}$' on the senior secured notes (the "**Senior Notes**") mentioned above. Senior Notes amounting to R450m were issued on 13 April 2012 (the "**Transaction**").

Rating Rationale

- Properties in the IPF portfolio reflect stable and predictable cash flows, underpinned by relatively long term leases, and low vacancy levels. Vacancy levels were reported at a low unchanged 3.3% as at end of September 2012, with a long average lease expiry profile.
- IPF's portfolio continues to evidence high levels of concentration in terms of rental flows, with the top 10 properties accounting for 60% of rental income (down from the high of 92%; for the year ended 31 March 2011). Notably, the majority of properties are "multi-tenanted" (56.9%). IPF's exposure to tenants' credit risk is low, given that a high 70.45% of tenants are graded 'A' (as graded by the Issuer) and the significant credit vetting processes applied.
- In regards to the properties held by the SPV, the market value of the properties rose by R22.5m to R881m as at the valuation date of 1 April 2012. No change was evident in the make-up of the tenants and tenant quality ratings, with Stansher Developments (4 Protea Place tenant) extending their lease from 1 March 2013 to 28 February 2018.
- GCR reviewed the applicable insurance cover policies on the buildings held as security for the transaction and took comfort in regards to the adequate insurance cover taken.
- The Issuer and the Security SPV have continued to meet the covenants, relating to the Senior Notes, being that of the 50% LTV ratio covenant, an interest cover ratio covenant of 2x which applied to the Issuer and, in respect of the Security SPV, a 60% LTV ratio.
- IPF launched a R1bn DMTN programme on 13 April 2012. In April 2012 IPF issued R450m under the DMTN programme. These Notes in aggregate were secured against selected properties held by IPF. As at 19 February 2013 the Board of Directors of IPF passed a resolution stating their intention to expand the DMTN programme size from R1bn to R3bn, which would potentially significantly increase IPF's available liquidity facilities. GCR expects to be notified sufficiently in advance if further Notes are to be issued in order to reassess the transaction on its merits.
- The rating of the Senior Notes is derived by applying a notching up approach, starting from the long term corporate credit rating of the Issuer.
- Based on fundamentals and prospects of IPF, GCR upgraded the underlying corporate's Credit Rating to 'A-$_{(ZA)}$/A1$_{(ZA)}$' from BBB+$_{(ZA)}$/A2$_{(ZA)}$ on a national scale in November 2012. A rating uplift of 3 national scale notches has been deemed appropriate for this particular Transaction, GCR has thus upgraded the applicable Transaction rating to 'AA-$_{(ZA)(sf)}$' from A$_{(ZA)(sf)}$.
- GCR analysed the Transaction by applying its Criteria for Rating Property Funds and Global Structurally Enhanced Corporate Bonds Rating Criteria.

[1]**The rating accorded to the Senior Notes relates to ultimate payment of interest and principal (as opposed to timely, akin to a loss severity therefore). The rating excludes an assessment of the ability of the Issuer to pay any (early repayment) penalties.**

GLOBAL CREDIT RATING CO.

Introduction

The Senior Notes were issued on 13 April 2012, with the listing taking place on the Interest Rate Market of the JSE, Johannesburg. The proceeds of the issuance have been used by the Issuer to fund the acquisition of investment properties, as well as for general corporate purposes.

Words in capitals are defined in the transaction documents, unless indicated otherwise.

Developments and economic outlook

GCR recently upgraded Investec Property Funds Corporate Credit Rating to A-$_{(ZA)}$/A1$_{(ZA)}$ from BBB+$_{(ZA)}$/A2$_{(ZA)}$. The reasoning by the upward movement in rating relates to:

- IPF's strong acquisitive growth and the potential to attain critical mass in the medium term.
- The strong ties with Investec Bank Limited and Investec's other subsidiaries combined with managements strong credentials has seen the fund build up a portfolio of quality properties.
- The property portfolio's strong and predictable cash flows, underpinned by long term leases and low vacancy levels.
- Lastly, the funds low gearing levels, which are expected to exceed the 30% mark in the medium term but remain below the 40% benchmark seen in other highly rated property groups.

For more insight in this regard please consult the Investec Property Fund Ltd Corporate Credit Rating report published in November 2012.

The DMTN Programme, allows the Issuer to issue a wide variety of securities with different maturities and risk profiles. IPF's Board of Directors have passed a resolution agreeing to increase the DMTN Programme limit from R1bn to R3bn, pending final signed documentation.

Since April 2012, the Issuer has announced acquisitions amounting to R2bn, conversely, the Issuer sold 2 properties with a value of R200m during its 2013 financial year. The 2 properties accounted for 5% of IPF's total portfolio value and gross lettable area ("GLA"), and 6% of annual rental revenue. The 2 buildings carried "B" building grades. Conversely, the R2bn of newly acquired properties (2 offices, 17 retail and 1 industrial) added a further 50% to IPF's total GLA and are expected to generate R222m in rental revenue on an annualised basis. Further to this, the properties are quality additions with 15 "A" grade buildings being added with the remainder constituted of 5 "B" grade properties. After the aforementioned movements, "A" graded GLA will account for 45% of the total portfolio, with "B" graded properties accounting for 47% and the remainder constituted of "C" graded properties. Accordingly, IPF's total property portfolio equated to R4.0bn after the above movements.

From an economic perspective going forward, a key challenge in the property sector will be rising administered and operating costs. This has been seen across the industry, and, is expected to constrain growth in cash profits somewhat. The rise in operating costs is attributable to the underlying inflationary forces in the economy, driven by administered costs and items such as fuel. Accordingly, cost containment will remain a primary challenge going forward, with little sign that inflationary forces are abating. While most charges are passed on directly to the tenants, this still prejudices a property fund's ability to pass on rental escalations. Particularly in the current stagnant economic environment, tenants can only absorb a limited increase to the all-in cost of occupancy and where that is consumed by municipal costs, less is available for the landlord

In regards to regulation, newly proposed Real Estate Investment Trust ("REIT") legislation has been included in the Taxation Amendment Bill, 2012. This dispensation seeks to standardise the regulatory and taxation treatment of property loan stocks ("PLSs") and property unit trust ("PUTs") structures. Per the new act, PLSs registering as a REIT will be required to make a 'qualifying distribution' (being at least 75% of gross rental income) and must be listed on the JSE. Such registration and listing is subject to JSE requirements, including minimum gross assets of R300m and a 60% limit on gearing. Under the new treatment, a qualifying REIT will be exempt from capital gains taxation and any qualifying distributions will be tax deductible in the REIT and taxed as a deemed dividend in the hands of an investor. PLS companies will also be able to retain their existing capital structure and still obtain REIT status.

Covenant compliance

As per the applicable pricing supplements for the Senior Notes, the following covenants apply to the Issuer on the aggregate corporate level:

- An interest cover ratio of 2 times, calculated by dividing EBITDA over interest expense for that period (excludes interest paid on debentures);
- A LTV ratio of 50%, calculated as total interest bearing debt of the Issuer (excludes debentures) divided by the most recent independent external market valuation of all properties owned by the Issuer as stipulated in the most recent audited financial year-end and interim results.

In regards to the SPV, a LTV ratio covenant of 60% applies, calculated as the total interest bearing debt secured by the SPV assets, divided by the most recent independent external market valuation of all properties in the SPV as stipulated by the most recent audited financial year-end and interim results.

Covenants requirements as at end Jan 2013	Actual ratio
Issuer Interest Cover ratio $\geq$ 2.0x	5.4x[1]
Issuer LTV ratio $\leq$ 50%	19.5%[1]
SPV LTV ratio $\leq$ 60%	51%[2]

[1] Source: Investec Property Fund Corporate Rating Report (November 2012).
[2] As at 31 January 2013, market valuations as at 1 April 2012.

Rental Collections

Although Investec Property is the appointed Manager for the Issuer, the day-to-day building management and maintenance is outsourced to external property management suppliers (the "Property Managers"). In this regard, the Property Managers are responsible for the monthly collection of rental income from the tenants.

Monies paid by tenants are directly deposited into a trust bank account established by the Property Managers. On a daily basis, the Issuer's fund accountant reviews the

Property Managers' trust bank account. The accountant ensures that there are adequate funds available in the trust bank account to pay for property expenses, with the remaining funds swept into a bank account held by the Issuer on a weekly basis.

Rating Methodology of the Senior Notes

The rating of the Senior Notes is derived by applying a notching approach, starting from the long term senior unsecured corporate credit rating of IPF. In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the Senior Notes with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries on the Senior Notes are higher than the assumed average recovery rate, a notching uplift may be applicable.

Recovery rate calculations*	ZAR
Principal amount outstanding upon default	450,000,000
Assumed missed interest upon default	13,704,650
Assumed missed interest to give time to realise recoveries	52,395,900
Aggregate exposure Senior Noteholders	**516,100,550**
Assumed recoveries on sale of properties	(412,775,000)
Assumed recoveries on rentals	(75,447,357)
Assumed sales and legal costs	24,766,500
Unsecured claim on Issuer	**52,644,693**
Assumed recovery on unsecured claim	N.a
Remaining claim	**0**
Overall estimated recovery rate	*90%*

* For more details, please see under *Appendix A*.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 90% carries the qualification "*Excellent Recovery Prospects*". A 3 notch rating uplift on the national scale is deemed to be appropriate for the Transaction. Accordingly, the Senior Notes have been upgraded to 'AA-$_{(ZA)(sf)}$' from a 'A$_{(ZA)(sf)}$' rating.

Rating Considerations

Meaning of the Rating of the Senior Notes

The rating accorded to the Senior Notes is a *final public* long term national scale rating. All executed signed transaction documentation has been received.

The *final* rating accorded to the Senior Notes relates to ultimate payment of interest and principal (as opposed to timely, akin to a loss severity rating therefore). The rating excludes an assessment of the ability of the Issuer to pay any (early repayment) penalties.

The rating of the Senior Notes incorporates recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter typically refers to probability of default only).

If the rating of the Issuer changes, the rating of the Senior Notes may also change, but not necessarily in the same quantum. The rating of the Senior Notes may also change if the estimated stressed value of the underlying collateral materially changes.

Suffix codes have been introduced for structured finance securities to reflect that the rating is a national scale rating. The first suffix code identifies to which country the rating relates; 'ZA' means Republic of South Africa. The second suffix code, 'sf', means that the rating accorded is of a structured finance nature. A Rating Outlook indicates the potential direction of a rating over the medium term, typically over a one to two year period.

The rating of the Senior Notes will be monitored. GCR will perform regular surveillance on the Transaction. Surveillance reports, such as this one, will be made available to subscribers to GCR's information services.

Rating Criteria Application

GCR analysed the Transaction by applying its Criteria for Rating Property Funds and its Global Structurally Enhanced Corporate Bonds Rating Criteria. Both Criteria are freely available on www.globalratings.net.

Other

Data Received from Arranger as at 31 January 2013

- Lease agreements relating to the properties secured.
- Independent property valuations on all five properties (as at 1 April 2012).
- IPF October, November, December 2012 and January 2013 reporting packs.
- Forecast income and expenses for the properties secured relating to the 2012 and 2013 financial years.
- Tenant lease schedules for the properties secured.
- Tenant gradings relating to the properties secured.
- Building gradings relating to the properties secured.
- Certified extract from the Board of Director's Resolution to increase the DMTN programme size.

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. The recovery rate calculations made, are based on information presented, numerous input variables and modelling assumptions which may prove (very) different in a positive or negative way in real life. Moreover, GCR is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction (including the legal and tax opinion), and should form their own views in this respect. They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

Appendix A: Rating Methodology of the Senior Notes

The rating of the Senior Notes is derived by applying a notching approach, starting from the long term senior unsecured corporate credit rating of IPF. In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the Senior Notes with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries are higher than the assumed average recovery rate, a notching uplift may be applicable.

Recovery rate calculations*	**Rands**
Principal amount outstanding upon default	450,000,000
Assumed missed interest upon default	13,704,650
Assumed missed interest to give time to realise recoveries	52,395,900
Aggregate exposure Senior Noteholders	**516,100,550**
Assumed recoveries on sale of properties	(412,775,000)
Assumed recoveries on rentals	(75,447,357)
Assumed sales and legal costs	24,766,500
Unsecured claim on Issuer	**52,644,693**
Assumed recovery on unsecured claim	N.a
Remaining claim	0
Overall estimated recovery rate	**90%**

* For more details, please see the "Recovery Rates Calculation Relating to the Security for the Senior Notes" section below.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 90% carries the qualification "*Excellent Recovery Prospects*". A 3 notch rating uplift on the ZAR currency national scale is deemed to be appropriate for the Transaction. Accordingly, the Senior Notes have been accorded a 'AA-$_{(ZA)(sf)}$' rating.

Recovery Rate Calculations Relating to the Security for the Senior Notes

1. Principal Amount Outstanding upon Default
This is the aggregate issuance amount of the Senior Notes. Given the differing legal maturity dates on the respective tranches of the Senior Notes, the principal amount outstanding during the life of the Senior Notes may change. It is assumed the Issuer defaults prior to the legal maturity date of the first tranche of Senior Notes. Given the bullet nature of the Senior Notes, the principal amount at default is equivalent to the initial issuance amount of the Senior Notes.

Capital Structure of Senior Notes

Stock code	Amount (ZAR)	Coupon	Maturity date	Length of period till maturity	Interest payment frequency
IPF01	134,000,000	3M Jibar + 1.4%	13 April 2015	2 years 2 months	Quarterly
IPF02	40,000,000	3M Jibar + 1.55%	13 April 2016	3 years 2 months	Quarterly
IPF03	50,000,000	3M Jibar + 1.65%	13 April 2017	4 years 2 months	Quarterly
IPF06	226,000,000	8.80%	13 April 2018	5 years 2 months	Semi-annual
Subtotal	**450,000,000**				

2. Assumed Missed Interest Payments upon Default
GCR assumes that upon default the last quarterly coupon is not paid (in respect of the Senior Notes issued under stock code IPF06, it is assumed the last semi-annual coupon is not paid). In addition, interest payments during the assumed recovery period (18 months) are sized. This equates to 6 quarterly coupon payments and 3 semi-annual coupon payments in respect of the Senior Notes issued under stock code IPF06. GCR assumes an 18 month recovery period due the concentrated nature of the secured property portfolio towards single tenants and its concentration towards the office sector. As such, GCR assumes that such properties will take longer to dispose of compared to a well-diversified portfolio. For the Senior Notes issued under stock code IPF01, GCR used the 2 years swap rate (5.19% as at 3 March 2013) plus the interest margin (1.40%) as the combined assumed interest rate (6.59% per annum). The 2 years swap rate instead of 3M Jibar is used because the weighted average life of the Senior Notes is assumed to be 2 years, given the bullet nature. Similarly, for IPF02, GCR used the 3 years swap rate (5.43% as at 3 March 2013) plus the interest margin (1.55%) as the combined interest rate. For IPF03, GCR used the 4 years swap rate (5.19% as at 3 March 2013) plus the interest margin (1.65%) as the combined interest rate. For IPF06, the interest rate as at closing date (8.80%) is utilised as this interest rate is a fixed until the legal maturity date. GCR understands that no default interest is applicable after an Event of Default.

3. Assumed Recoveries on Sale of Properties
GCR assumes that 18 months after default of the Senior Notes, all properties are eventually sold in a single circumstance. GCR used the independent market valuations of the properties (per 1 April 2012) as the starting point for the analysis to derive the stressed sales value for the portfolio of secured properties. In deriving the relevant haircut to be applied to each property, GCR looked at 3 components, namely i) the length of each tenant's lease; ii) the underlying credit quality of each tenant and iii) the grading of each building as provided by the Issuer. In the event a property met all 3 criteria (i.e. the lease is longer than the maturity date of the Senior Notes, the tenant has an underlying credit quality at least commensurate with the rating of the Senior Notes and if the building has been accorded an 'A' grade by the Issuer), a 45% haircut was applied to the market valuation of the respective property. In the event a property meets only 1 or 2 of the 3 criteria, a 65% haircut was applied. Please refer to the table below for an overview:

Property	Haircut Applied	Lease Maturity	Tenant Credit Quality	Building Grade
Investec Offices Durban	45%	Long	Rated	A
Woolworths House	45%	Long	Rated	A
Innovation Group	65%	Long	Unrated	B
Makro Montague Gardens	65%	Medium	Rated	B
4 Protea Place	**65%**	**Medium**	**Unrated**	**A**
Stansher Developments		Long	Unrated	
Maisels Group		Medium	Unrated	
Group 1 Tenants Association		Medium	Unrated	
Mr RJ Singh		Medium	Unrated	

Please refer to *Appendix C* for an overview of values.

4. Assumed Recoveries on Rentals (Net Property Cash Flows during the 18-Month Enforcement Period)

From a legal perspective, the Security SPV can continue to collect rentals from the tenants upon enforcement. Once the properties are sold, the tenants' lease agreements will follow the sale of the properties and the new owner can start collecting the rentals.

GCR was provided with per property income and expense information for the 10 months to January 2013. This information was used as a basis for estimating rental cash flows during the 18 month enforcement period.

Conservatively, no rental income is assumed to be generated over the enforcement period from the Innovation Group and 4 Protea Place buildings. This is because the underlying credit quality of the tenants is unknown (unrated entities) and the number of tenants is concentrated. For the remaining tenants comprising the other 3 properties, GCR assumes that 2% of rental amounts owing by these tenants over the enforcement period will remain in arrears. The 2.1% arrears rate was applied based on the level of arrears on the Issuer's aggregate property portfolio as at end January 2013.

5. Assumed Sales and Legal Costs

GCR applied 6% costs to the stressed value of the properties, and 3% to the stressed recoveries on rentals.

6. Remaining Claim

GCR understands that the majority of the Issuer's properties are likely to be encumbered going forward, in order to fund further acquisitions. As such, GCR conservatively assumed that no recoveries will be received on the unsecured claim on IPF.

Please note that the assumptions, haircuts and stresses applied by the GCR (discussed below) relating to the secured properties are conservative in nature, and are deemed to be appropriate in the context of the relevant rating scenario.

It is noted that an increase in the Security SPV LTV ratio to 60% will likely have a material adverse impact on estimated recovery rate calculations. As such, the rating of the Senior Notes may change.

Appendix C: Overview of Properties that Serve as Security for the Senior Notes

Property	Sector	Building Grading[4]	Market valuations as at 1 April 2011 (R)	Market valuations as at 1 April 2012 (R)	Basic monthly net income (31 Jan'13)	Average vacancy level as at end Jan 2013[2]	Average arrear levels as at end Jan 2013[3]
Investec Offices Durban	Office	A	215,000,000	225,000,000	1,638,796.60	0.0%	0.0%
Woolworths House[1]	Office	A	288,000,000	298,000,000	2,077,120.00	0.0%	0.0%
Innovation Group	Office	B	160,000,000	170,000,000	1,378,834.00	0.0%	0.0%
4 Protea Place	Office	A	80,000,000	105,000,000	762,992.40	0.0%	0.1%
Makro Montague Gardens	Industrial	B	115,000,000	82,500,000	693,424.70	0.0%	0.0%
Total			**858,000,000**	**880,500,000**	**6,551,168**	**0.0%**	**0.0%**

[1] This is a leasehold property.
[2] Calculated as vacant area (m^2) divided by total lettable area per (m^2).
[3] Calculated as total arrears outstanding as at end January 2013 divided by total gross rental income as at end January 2013.
[4] As graded per the Issuer's grading scale.

Property	Tenant	Tenant Grading[1]	Expiry date of current lease	Stressed Value of Properties
Investec Offices Durban	Investec Bank	A	2020/04/30	123,750,000
Woolworths House[1]	Woolworths	A	2022/01/31	163,900,000
Innovation Group	Innovation SA	A	2021/08/31	59,500,000
Makro Montague Gardens	Makro	A	2016/06/30	28,875,000
4 Protea Place	Stansher Developments	B	2018/02/28	36,750,000
	Maisels Group	B	2018/02/28	
	Group 1 Tenants Association	B	2018/02/28	
	Mr RJ Singh	C	2014/10/31	
Total				**412,775,000**

[1]As graded per the Issuer's grading scale.

Property	YTD 10 months to end Jan 2013 Actual Income	YTD 10 months to end Jan 2013 Actual Expenses	YTD 10 months to end Jan 2013 Net Income	18 months Stressed Net Rental
Investec Offices Durban	16,401,592	13,626	16,387,966	28,908,372
Woolworths House	20,786,450	15,250	20,771,200	36,640,397
Innovation Group	16,200,293	2,411,953	13,788,340	0[1]
4 Protea Place	10,130,987	2,501,063	7,629,924	0[1]
Makro Montague Gardens	7,461,478	527,231	6,934,247	12,232,012
Total	**70,980,800**	**5,469,123**	**65,511,677**	**75,447,357**

[1]Unrated entities income flows excluded from Stressed Net Rental Flows.