GCR GLOBAL CREDIT RATING CO.
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Investec Property Fund Limited

South Africa Corporate Analysis **July 2014**

Security class	Rating scale	Rating	Rating outlook	Review date
Long term	National	A-$_{(ZA)}$	Positive	July 2015
Short term	National	A1-$_{(ZA)}$	Positive	July 2015

Financial data:

(US$'m Comparative)

	31/03/13	31/03/14
R/US$ (avg)	8.50	10.11
R/US$ (close)	9.24	10.58
Total assets	502.1	619.4
Total debt	48.7	96.9
Total capital†	426.8	483.2
Cash & equiv.	43.2	33.9
Turnover	44.1	56.0
EBITDA	34.7	43.8
NPAT	0.0	50.1
Op. cash flow	26.8	34.9
Market cap*	US$501.4m	
Market share	n.a	

*As at 27 Jun 2014 @ R10.57/US$.
† Includes subordinated debentures for F13.

Rating history:

Initial Rating (11/2011)
Long term: BBB+$_{(ZA)}$
Short term: A2$_{(ZA)}$
Outlook: Stable

Last Rating (07/2013)
Long term: A-$_{(ZA)}$
Short term: A1-$_{(ZA)}$
Outlook: Stable

Related methodologies/research:

Criteria for rating corporate entities, updated August 2013

Criteria for rating property funds, updated July 2013

Investec Property Fund Limited ("IPF, the fund or the REIT") rating reports, 2011-2013

IPF R450m Senior Secured Notes: New Issuance/Surveillance Reports, 2012-2014

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Summary rating rationale

The ratings are based on the following key factors:

- Despite a reduction in Investec Limited's ("Investec") direct stake to 45% at FYE14 (FYE13: 50%), IPF's branding underlines a beneficial relationship that provides an essential competitive advantage. This relationship is strengthened by the fund's management by an Investec subsidiary, and access to, *inter alia*; facilities from Investec Bank, the group's intellectual capital, systems and procedures, as well as relationships with Investec's corporate clients.
- The fund has more than trebled in value over its short track record, with investments (including a 19% stake in recently listed Investec Australia Property Fund, "IAPF") valued at R6.1bn at FYE14, from a listing value of R1.7bn.
- The top 10 properties accounted for 44% of the property portfolio's carrying value at FYE14 (FYE13: 55%), from 75% at FYE12. Despite the moderate decreases reported, the fund reflects a high proportion of single tenancies (47% of revenue, from 55% previously), while 70% of its rental income is derived from A-grade tenants (FYE13: 73%).
- Revenue growth is underpinned by extensive acquisitive activity, with rental income rising by 51% to R566m in F14. The higher weighting of retail centres saw the operating margin ease to 78.3% in F14 (F13: 78.5%), from a high of 79.2%. Rising cost pressures, especially from utilities, rates and taxes, are also expected to raise tenants' all-in costs of occupancy despite efforts to rein in expenses.
- Vacancies remain very low at 2.6% of gross lettable area ("GLA"), with leases averaging 4.3 years at FYE14, reflecting the quality of assets acquired.
- Growth in the past 2 years has been mainly funded by equity, with R2.1bn raised from a rights offer and an accelerated book build. As such, debt of R1bn (FYE13: R450m) translated to a gross loan to value ("LTV") of 17% at FYE14 (FYE13: 11%). Gross debt to EBITDA of 231% was well below GCR's 400% threshold for highly rated property funds (FYE13: 153%), with the spike due to an earnings drag from acquisitions finalised late in the year. The LTV ratio is not expected to rise above 30%-35% in the medium term.
- Net interest cover remains robust at 9.5x (gross: 7.7x), with covenants comfortably adhered to. Liquidity is underlined by unutilised banking facilities, flexibility from the DMTN programme and enhanced cash generation. This is supported by the low percentage of encumbered properties (FYE14: 36%).

Factors that could trigger a rating action may include

Positive change: Sustaining robust medium term growth and operational performance despite the weakening operating environment would be positively viewed. Achieved in conjunction with conservative gearing metrics, this could place upward pressure on the ratings.

Negative change: Materially higher than projected debt and gearing levels (due to deteriorating market fundamentals or unanticipated capital and investment risks) could warrant negative rating action.

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Business profile and recent developments

Listed on the JSE in April 2011 as a limited liability property loan stock company ("PLS"), IPF became a Real Estate Investment Trust ("REIT") on the 1st of April 2013. The fund's primary mandate is to acquire and manage income-generative commercial properties in the office, retail and industrial segments. IPF bought an 18.6% interest in IAPF (listed on the JSE in October 2013), which represents an indirect exposure to the Australian property sector. Given the common directors (3 of IPF's directors sit on the board), IAPF is accounted for as an associate, and management has no plans to build up a listed equity portfolio going forward.

Table 1: Major shareholders, FYE14	%
Investec	45.14
Coronation Fund Managers	8.29
STANLIB Asset Management	5.89
S Giuricich Group (incl. beneficially held shares)	4.75
Investment Asset Management*	2.30
Directors (incl. the directorate of the fund's Manager)	5.31

*May-14: 8.1% including beneficial interest held on behalf of clients.

Subsequent to its conversion to a REIT, IPF adopted an all-equity structure in August 2013. This was achieved by replacing linked units in issue with delinked ordinary shares, and the simultaneous conversion of ordinary par value shares to ordinary shares of no par value. The fund also raised R600m from selected shareholders by way of an accelerated book build (Investec Bank acted as the bookrunner), which closed in December 2013. As Investec was precluded from participation in the book build (and given the part settlement of the consideration for certain assets acquired by an issuance of shares), its direct interest had been reduced to 45% at FYE14, with another 5% held by management. Despite this dilution, the beneficial relationship with Investec provides a strong underpin to the ratings.

The fund is managed by Investec Property Proprietary Limited ("Investec Property") under a renewable, 7-year agreement. A number of procurements have been made from Investec Property, including the fund's base portfolio of 29 properties and assets worth R616m bought in F14. IPF also leverages access to funding facilities from Investec Bank, and draws extensively from the group's internal processes and longstanding relationships with its corporate clients. The bank also provides the company secretarial function for the fund. IPF's branding is reflective of how closely the REIT continues to identify with Investec, particularly in terms of its operational structure and conservative investment philosophy. Investec Bank is rated AA-$_{(ZA)}$ and A1+$_{(ZA)}$ by GCR (for the long and short term respectively), while Investec is investment-grade rated internationally. Note is also taken of the support from other institutional shareholders reflected in oversubscription to the recent book build and their active participation in other capital raising initiatives.

During F14, IPF announced acquisitions amounting to R1.6bn and invested R236m in IAPF. This followed R2.2bn in purchases finalised in F13, mainly funded by a R1.5bn rights issue and R450m raised from secured notes under the R3bn DMTN programme. Notable F14 transactions included the RPP portfolio, which cost R555m and Nicol Main (five properties at a total cost of R302m). At FYE14, three of the properties had not been transferred. Barinors Vineyards (which cost R96m) was brought onto IPF's balance sheet in May 2014, while two Nicol Main buildings (currently under construction) will transfer when completed and tenanted in 3Q F15. While IPF continues to seek acquisitive opportunities, strict procurement guidelines are adhered to in order to minimise investment and capital risk. As such, any acquisitions are finalised after exhaustive due diligence, with assets expected to meet rigorous criteria in relation to tenant profiles, performance, positioning and scale. IPF does not normally purchase assets that require major refurbishment or undertake Greenfields, and thereby carries very little project risk. The fund seeks to own its assets outright and normally does not enter into joint ventures, unless it is with affiliated counterparties or if it is to secure properties adjacent to its existing assets. It has a long term view towards its assets, and only sells smaller assets (procured as part of a larger portfolio) no longer considered a strategic fit or in cases where properties are taken over by tenants. Since March F12, IPF has sold four properties for R292m, realising a capital profit of R50m.

Table 2: Acquisitions, F14	GLA (m^2)	Cost (R'm)	Yield (%)	Transfer date
RPP office assets°	20,890	386	8.5	Mar-14
Big Box retail portfolio	38,475	209	8.4	Oct-13
Nicol Main, Bryanston°	6,616	178	8.0	Mar-14
Bigen Africa, Innovation Hub	5,412	125	8.2	Oct-13
5 Bond Street	5,870	119	8.4	May-13
Martin & Martin, Isando	19,972	89	8.5	Dec-13
RPP Industrial assets°	8,923	79	9.5	Mar-14
SA Ladder, Alrode	25,000	75	10.0	Apr-13
Other	8,029	93	n.a	n.a
Total	**139,187**	**1,353**	**8.6**	

°Excludes properties that had not been transferred at year end.

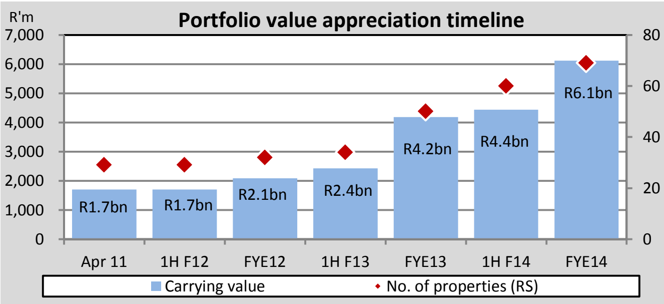
Corporate governance

Table 3: Corporate governance summary	
Description	**Findings**
Directors - Executive	3
- Non-executive	6
Frequency of meetings	Four times p.a. Ad hoc meetings where necessary.
Separation of the chairman	Chairman is separate from the CEO.
Board committees	Audit & Risk; Investment; Nominations; Social & Ethics. Committees are chaired by independents.
Internal control/compliance	Yes, reports to Audit & Risk committee. Board effectiveness and performance is evaluated annually.
External auditors	Ernst & Young Inc. An unqualified, clean audit opinion was issued for F14.

As a REIT, IPF is subject to the Companies Act and JSE regulations, in addition to the requirements of its Memorandum of Incorporation. The fund does not have its own employees, as it is externally managed. Its directors are paid by the manager (Investec Property) from the asset management fees it receives from IPF. Investec Property's mandate is quite extensive, as it finds investment opportunities for IPF and is tasked with securing capital to support acquisitive growth. IPF's executive directors have a long track record in Investec Property and various real estate segments, with the chair and CEO drawing from experience with large, well-established domestic and international funds. To ensure its board's autonomy, IPF maintains a majority of independents (five in F14). As the chairman is not an independent, the board has a lead independent that also has strong property sector credentials.

Investment portfolio

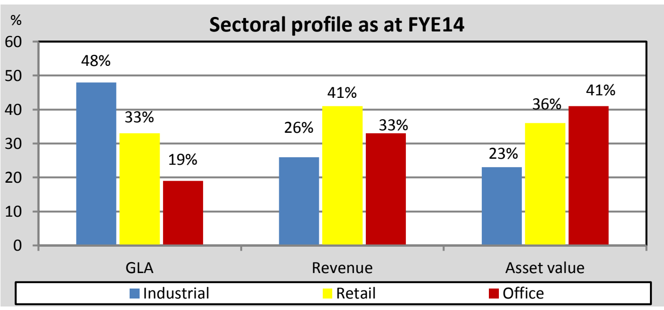
Unless otherwise stated, the ensuing analysis relates to the fundamentals of investments held at 31 March 2014.



At FYE14, the value of total investments was 3.6x the carrying value of the fund at its listing, anchored by 69 properties across 3 commercial segments. Although the total GLA rose by 71% to 693,256m^2 over the review period, no undue concentration is in evidence, with only one asset (Alrode Multipark) accounting for more than 10% of the overall lettable area. In terms of value, granulation has improved markedly despite the fairly large deals secured. The top 10 properties accounted for a lower 44% of the portfolio's carrying value at FYE14 (FYE13: 55%; FYE12: 75%). Rapid acquisitive growth has been coupled with an enhancement of the property portfolio's fundamentals, reflecting sound strategy execution amidst intensifying competitive pressures (especially in relation to procurement of quality assets).

Table 4: Top ten properties, FYE14 (R'm)	Book value	% of portfolio	
		By value	By GLA
Balfour Mall	349	6.0	5.3
The Firs	337	5.8	1.8
Alrode Multipark	334	5.7	13.1
Woolworths House	319	5.5	4.4
Investec Durban	245	4.2	0.9
Kriel Mall	236	4.1	3.1
Innovation Group	202	3.5	2.2
Great North Rd Plaza	179	3.1	2.0
Nicol Main	178	3.0	1.0
Investec Pretoria	178	3.0	0.9
Total	**2,557**	**43.9**	**34.7**

Geographically, assets remain concentrated in Gauteng, which at FYE14 represented 70% of rental income and 75% of GLA (FYE13: 67%; 72%). The Western Cape contributed a relatively stable 12% of revenue (and 13% of GLA), anchored by Nonkqubela Link Mall and Woolworths House. IPF does not plan to manage down these concentrations, although representation in certain provinces will increase in the medium term as assets aligned with the fund's investment profile are procured.

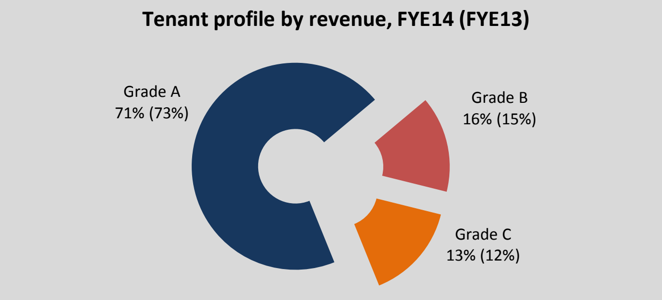


The sector profile has evolved quite substantially since the fund's inception, and is expected to remain fairly fluid, as management does not target specific segment weightings. While the property portfolio's composite value is anchored by office and retail (41% and 36% respectively at FYE14), there is a significant disparity in terms of revenue contributions. A higher 41% of rental income was attributed to retail assets (FYE13: 23%), while the office contribution eased to 33%, from 42% previously. This followed acquisition of a number of 'big box' format retail properties during the year (assets of this format collectively represented 38% of the retail segment's GLA at FYE14). At 51%, shopping centres underpin the REIT's retail space, anchored by strongly performing assets such as Balfour Park Shopping Centre, Kriel Mall, Nonkqubela Link Mall and the Great North Road Plaza. Dealerships contribute the balance, and these are usually high grade, single-tenanted properties. The average lease expiry on retail properties eased slightly to 3.7 years (behind expiries reflected by REITs that own much larger, regionally dominant centres), while rental escalations were fairly stable at 7.8%. The scale, format and positioning of these retail assets makes them fairly defensive, protecting the fund from the vagaries of waning consumer spend, which has sharply curtailed smaller retail centres' revenues.

As discussed, the office contribution to rental income declined as the overall portfolio continued to expand, somewhat masking the sound underlying performance of the base pool of properties. The segment mostly comprises A-grade tenancies, which accounted for 83% of its revenues. Single tenanted buildings represented 47% of office GLA, contributing to the low cost to income ratios (23.9%, from 23.8% previously). The segment's single tenanted assets also reflect the longest weighted average lease expiries ("WALE"), at 7.1 years (by rental income). This was enhanced by acquisitions worth R833m made during F14, of which 71% represented long-term, triple net leases. Assets thus increased to 19, from 8 previously, although value remains anchored by assets such as The Firs, Investec Durban, Woolworths House and Innovation Building. Although the segment's WALE eased to 5.6 years (FYE13 6.7 years), occupancies are at 100% for all the assets with the exception of one small property, which led to the 5.1% vacancy rate (FYE13: 7.1%). Vacant space at The Firs and 345 Rivonia was let at a 16.4% positive reversion to rental guarantees.

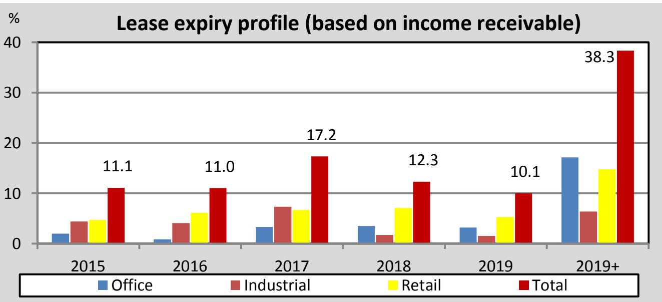
Industrial is anchored by Alrode Multipark, which at FYE14 represented 27% of its GLA and 25% of fair value. The top 5 assets accounted for a moderately reduced 56% of the sector's carrying value (FYE13: 63%), which translated to a modest 13% of the value of the fund's property investments. A number of small to medium single-tenanted assets (with fair values ranging from R7.8m to around R30m) have been retained, although large acquisitions (such as Martin & Martin and SA Ladder) have been made recently. Vacancies remained low at 2%, while the WALE improved to 3.5 years (FYE13: 2.7 years). This was on the back of strong renewals, which saw nearly 60,000m^2 (90% of expiring leases) either renewed at an average 11.3% reversion, or let (17.7%), bringing overall reversion to 16.8%, against an average of 11.1% for the entire fund.

A-grade tenants (large national or listed companies, government departments, and major franchise brands) underpin the tenant profile. A-grade representation eased from the FYE13 high, a factor of competitive pressures (particularly in the over-supplied prime office space) and curtailed industrial property demand. The split between the B and C-grade space contribution to revenue remains relatively balanced, although note is taken of the impact of C-grade properties acquired during the year, most notably SA Ladder and Khayelitsha 2, the latter being the only retail asset in this tenant bracket.

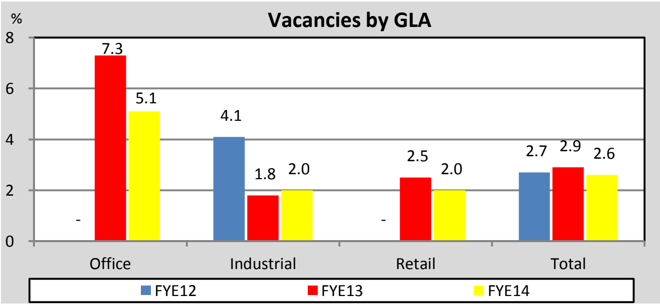


Single tenancies' contribution to revenue continued to ease, registering at 47%, from 55% previously (FYE12: 58%). The dilution is largely attributable to the fund's burgeoning retail footprint, wherein larger acquisitions have shifted the weighting towards multi-tenanted assets. Single tenanted properties nonetheless remain a key differentiator for the fund, as the related triple net leases support its atypically low cost structure. Single tenanted assets have also historically reflected early renewals at sustainable reversions, as tenants come to identify strongly with the properties. According to IPF, the strategic positioning of its properties and continued investment in maintenance and enhancements has also paid dividends, contributing to the well-entrenched relationships that have been developed with tenants.

The comparatively smaller tenant base (versus REITs with predominantly multi-tenanted properties) implies higher concentration and counterparty risk. The loss of a tenant from a single-tenanted building could drive an unanticipated spike in vacancies, adversely impacting cash flows. Accordingly, triple net leases are restricted to high quality tenants that are strictly vetted and have a long standing relationship with the manager or affiliated entities. Exhaustive due diligence processes on possible acquisitions also serve to mitigate this risk, although this draws out the process and has seen IPF walk away from potential transactions.



Forward lease maturities are well-staggered (by income receivable and GLA), with 38% expiring after 5 years (FYE13: 35%). Long leases have been secured for new acquisitions and for renewals (particularly for industrial space, which had the highest renewals on upcoming expiries). Market related rental escalations were secured on in-force contracts and new leases (8.5%, from 8.6% previously), although this eased further from the 9.2% average achieved in F12. This is partly attributable to the fund's higher retail weighting, as the sector reflects moderately lower, albeit stable escalations. Vacancies remain very low, with occupancy rates at 100% across most of the properties. While vacancy levels may fluctuate with acquisitions, this is expected to remain within a narrow band, as the fund does not normally purchase assets with high vacancies. Exceptions may be made for assets deemed to have reasonable upside potential that will contribute strongly to future revenue streams. While their acquisition may initially be earnings dilutive, the fund takes precautions to ensure that it does not overpay for such assets. This includes not paying for vacant space and extensively screening potential acquisitions (investment committee approval is required for any transactions).



Operating environment

The domestic economy continued to weaken in 2013, with real GDP growth slowing to 1.9% (2012: 2.5%), against a 2.8% projection. Pressures largely stemmed from worsening labour unrest during the year, which directly affected several key sectors. The strikes in 2013 were resolved with above inflation wage increases, while the 2014 platinum strike was finalised after 6 months. As such, mining production declined by 24.7% quarter on quarter in 1Q 2014, driving a 0.6% decline in overall GDP. Rising inflationary pressures, particularly from necessities such as food and fuel, and administered costs such as electricity and rates, have raised consumer indebtedness and curtailed disposable income. As such, while consumer confidence showed resilience in 2012 and 1H 2013, there were clear signs of deterioration towards year-end 2013. This was mostly palpable in the reduced sales volumes reported by leading national retailers. With severe Rand depreciation exacerbating inflationary pressures, the Reserve Bank ("SARB") raised the repo rate by 50b.p. to 5.50% in January 2014, the first rate movement since July 2012.

Retail property performance has been strong despite the worsening consumer environment, particularly in rural and peri-urban areas where communities are largely reliant on government grants. Property funds have thus increasingly sought to establish medium-large shopping centres in townships and rural areas, which continue to reflect robust footfalls. In contrast, smaller community centres have struggled due to the rapid construction of competing centres (that has led to oversupply in certain nodes). With a number of developments in the pipeline, heightened competition may further impact rental rates, especially if the economy should continue to weaken. However, the impact of slower retail sales will likely have a lagged effect on existing properties, as most national retailers are locked into long term leases. The impact of a weaker environment will be mostly felt by sole proprietor stores which, while contributing much less to a centre's income, tend to pay higher rental rates.

The commercial property space in metropolitan areas also remains challenging. Continued cost rationalisation and SME liquidations in the highly uncertain economic environment have reduced the overall demand for office and industrial space. At the same time, fairly low construction costs and efforts to reduce energy use through greener buildings has led to a tenant-driven boom in key business nodes like Sandton. Several large corporates are constructing purpose built office and industrial space, with the latter trend driven by the need to optimise supply chains to rein in costs. This will drive higher vacancies in peripheral nodes, even for high quality properties, placing further strain on rental rates in these areas. As such, while well-located prime space has continued to report above inflation escalations and positive lease reversions, secondary-grade space reflects high vacancies, a trend that will persist until mining and industrial output normalise.

Financial performance

Attached are audited financials for the 3 years to F14, while brief commentary follows hereafter. Rental income rose by 51% to R566m in F14, on the back of acquisitive activity (which underpinned a 55% ramp up in revenue in F14). The base portfolio (premised on the pool of assets held at FYE12) achieved an 8% increase in normalised net rental income (5% after taking into account vacancies at a small-scale office building). While acquisitions will continue to drive robust top line performance, organic growth is likely to trend just below the F14 average escalation on in-force contracts going forward. Net property expenses rose by 52% to R91m (F13: 55%), with assessment rates making up 39% of the total. Electricity costs nearly doubled to R70m in F14; these (as well as water and municipal charges) are largely recovered from tenants, with IPF incurring a portion of the cost for utilities on multi-tenanted properties. Accordingly, net rental income increased by 51% to R475m in F14.

The gross cost to income ratio[1] rose to 30.1% in F14 (F13: 27.5%), due to the increased weighting towards multi-tenanted retail properties (catering to mid-LSM buckets). The inclusion of centres such as Kriel and Nonkqubela pushed up the retail cost to income ratio to 34.7% (F13: 33.3%), while gross industrial property expenses equated to a higher 30.2% of revenue (F13: 28%), on the back of elevated electricity tariffs. Positively, office sector expenses were well-contained, reflecting enhanced efficiencies and efforts to rein in tenants' all-in occupancy costs. Energy and water conservation initiatives have begun to pay dividends for the fund, although the cost to income ratio is likely to continue to creep up in the wake of rising inflationary pressures (depending on the sector weightings). Credit controls are tight, with arrears equating to a negligible 0.3% of collectibles and debtors impairments at 0.7% of property expenses after utility recoveries (F12: 1.4%). Other costs rose by 54% to R32m in F14, largely reflecting the commensurately higher asset management fees. Overall (after accounting for an accrued IAPF dividend), operating income rose by 53% to R451m, to represent a fairly stable 78.3% of revenue. This remains well above the 60% benchmark for highly rated funds.

Revaluation surpluses on the property portfolio rose by 58% to R187m in F14, bringing cumulative fair value gains over the review period to R414m. This has previously been offset by adjustments to the fair value of linked debentures (F13: R197m; F12: R138m). With the conversion to an all-equity structure, the latter movement was muted (R30m). Taking into account a R45m appreciation in the value of IAPF shares and nominal gains on derivatives, total fair value movements registered at R212m (F13: R83m loss). The gross finance charge rose to R57m (F13: R39m) on the back of interest on bank facilities drawn down during 2H F14. With interest income having more than halved to R11m, this pushed up net finance costs to R47m. Given that debt utilisation has been conservative to date, finance charges are expected to rise materially from the modest levels reported so far, although the all-in cost of funding should be somewhat contained by hedges. Overall, the F14 profit before distribution to debenture holders of R626m was 2.7x the amount achieved in F13. After accounting for debenture interest (R119m; F13: R237m), comprehensive income was reported at R507m, from negligible historical levels.

Cash generation has been robust since the fund's listing, rising strongly each year on impetus from acquisitions. As rental collections are closely controlled, working capital movements are modest, and largely relate to accrued recoveries and prepayments. Operating cash flow was therefore up 55% to R353m, largely reflecting the appreciation in earnings. The cash distribution of R345m made to debenture/shareholders in F14 (F13: R163m) included a R164m pay out related to the prior year. R973m was expended on property acquisitions during F14 (F13: R1.7bn) bringing the cumulative spend as of March F14 to R4.7bn. F14 investments (including the R236m investment in IAPF) were mainly funded by proceeds of the accelerated book build and from bank facilities. Capex increased to R61m in F14 (F13: R28m), with most of the spend going towards industrial properties. Management is mooting the development of a further 20,000m^2 at Alrode Multipark to improve income from the already fully let property. Proceeds from disposals were muted in F14 (R51m; F13: R241m), a trend expected to continue, as the fund has a long term view towards its assets. Cash has been atypically high in the past 2 years, albeit having eased to R358m, from R399m previously (as cash earnings are distributed, REITs do not normally reflect much liquidity on their balance sheets). As at FYE14, R323m of the cash held related to properties whose transfers were imminent, as IPF had contracted to take up assets worth R342m (FYE13: R254m).

Funding and liquidity profile

Shareholders have actively supported IPF's growth over the period under review, enabling the fund to sustain

[1] Property expenses (before recoveries) as a percentage of rental income. This excludes asset management fees and other administration costs.

conservative gearing metrics. A cumulative R2.1bn has been raised from shareholders in the past 2 years by way of a rights issue and book build. In addition, the fund has partly paid for certain assets by issuing shares (notably the Giuricich and RPP portfolio acquisitions). With the conversion to an all-equity structure, capital converted from debentures amounted to R4.1bn, with a further R1bn derived from new shares (R695m) and retained earnings.

During F14, an SPV was created to secure bank funding against a pool of bonded assets. As at FYE14, IPF had term facilities from two bank counterparties amounting to R500m, secured by properties valued at R1.2bn. The Investec R500m bridging facility has been retained, providing further flexibility. The latter facility is unsecured and does not attract commitment fees. IPF drew down on the bridging facility in the latter part of the year to fund working capital. This was refinanced from the proceeds of the commercial paper, and as such, the facility is currently untapped. While there are no committed facilities to cover the commercial paper, comfort is drawn from the fund's unutilised facilities and Investec linkages.

Table 5: Facilities (R'm)	Facility	Drawn	Expiry	Rate
IPF01		134	Apr-15	JIBAR+140 b.p.
IPF02		40	Apr-16	JIBAR+155 b.p.
IPF03		50	Apr-17	JIBAR+165 b.p.
IPF06		226	Apr-17	Fixed: 8.8%
Commercial paper (post FYE14)		200	Jul-14	JIBAR+27 b.p.
Total DMTN	**3,000**	**650**		
Nedbank term loan	250	250	Oct-18	JIBAR+170 b.p.
Standard Bank term loan	250	250	Oct-16	JIBAR+155 b.p.
Investec Bridge facility	500	80	Apr-15	JIBAR+225 b.p.
Total bank borrowings	**1,000**	**580**		

The senior secured notes are rated AA-$_{(ZA)}$ by GCR (Stable outlook). For further information, subscribers are referred to GCR's Structured Finance Surveillance report on IPF's Senior Secured Notes, dated July 2014. The notes are secured by properties with a combined carrying value of R975m as at FYE14, translating to collateralisation of 2.2x (2.4x for the aforementioned SPV). In total, a low 36% of the fund's assets were encumbered at FYE14 (FYE13: 23%), well below the levels reflected by most established domestic REITs. With the acquisitions announced during the year, gross LTV spiked to around 30%, as the fund drew down an additional R575m in debt to fund a portion of the transactions. Post the conclusion of the book build, however, the gross LTV closed the year at a fairly low 18% (FYE13: 11%), and is estimated to have risen to 21% after the issue of commercial paper and transfer of certain properties post year end. This remains comfortably below a GCR 40% benchmark for highly rated funds, and lends the fund some flexibility in financing new asset purchases. Management does not intend to raise the LTV above 30%-35%, although the metric could be temporarily raised to the 40% threshold if debt becomes yield enhancing. Gross and net debt to EBITDA spiked to 231% and 150% respectively as debt levels increased (FYE13: 153%; 17%). Although the latter remains well below the 400% threshold for highly rated property funds, note is taken of the earnings drag related to properties that only transferred in the latter part of the year. Earnings-based gearing metrics are therefore not expected to exceed the 400% mark in the medium term, even as the fund's balance sheet is leveraged further.

IPF utilises hedges to mitigate interest rate risk risk, and ensures that at least 75% of its interest rate exposure is fixed. As at FYE14, 110% of its debt was hedged for a weighted average of four years. This is estimated to have reduced to around 84% post year end. The fund's all-in cost of financing remained well contained, albeit having risen slightly to 9.2% in F14, as IPF drew down on the more expensive bridging facility (F13: 8.2%). After the April 2014 commercial paper issue and a R323m outlay for properties acquired, the cost is expected to have moderated to 8.5%. Net interest cover was sound, albeit having normalised somewhat at 9.5x (gross interest cover: 7.7x). Debt serviceability metrics are projected to be sustained well above the senior secured notes' covenant of 2x over the medium term.

Outlook

At the end of June 2014, IPF announced agreements to purchase Dihlabeng Mall (for a R358m consideration) and the Foschini Building within Johannesburg's inner city retail node (R77m). This will bring investments to around R7bn once pending asset transfers are finalised. The former will be funded from existing debt facilities and the Foschini Building from a mix of debt and IPF shares. In this respect, a further R450m was raised from unsecured notes under the DMTN programme (with tenors ranging from 3-5 years). This increased debt to R1.6bn, bringing the gross LTV to 23%. Management is also in the process of negotiating new bank facilities. Although additional debt will be raised to fund new acquisitions, the proportion of encumbered assets is not projected to change materially. As such, unsecured debt holders can still expect very strong recoveries in a default situation. Sound credit protection factors are envisioned despite the higher debt levels, with the LTV not likely to exceed the 30%-35% range. Interest cover is also projected to stay well above standing covenants over the tenor of the REIT's senior secured notes.

The fund continues to reflect sound performance, and despite rapid growth, its portfolio fundamentals remain robust, with high occupancies and long forward lease expiries. IPF is projected to reflect organic growth aligned with historic trends, with acquisitive activity expected to support robust revenues and cash flows. Note is nonetheless taken of the weak economy and the far-reaching impact of labour unrest amidst elevated inflationary pressures, which will continue to curtail broader demand for space. The fund's historically strong margins are also likely to be constrained by rising inflationary and competitive pressures, although the continued cost rigour is viewed positively.

Investec Property Fund Limited

(Rand in millions except as noted)

Income Statement Year end : March	2012	2013	2014
Rental income	211.6	331.4	520.9
Revenue (incl. straight line rental revenue adjustment)	*242.1*	*375.2*	*566.0*
EBITDA	**191.7**	**294.6**	**443.3**
Operating income	191.7	294.6	443.3
Distributable earnings from associates and investments	0.0	0.0	7.4
Income from operations and investments	**191.7**	**294.6**	**450.7**
Net finance income (charges)	(3.0)	(14.0)	(46.6)
Fair value movements	(30.5)	(82.9)	211.6
Profit (loss) on property disposals and other	0.0	39.1	11.0
Distribution to linked debenture holders	(158.0)	(236.6)	(119.9)
NPBT	**0.2**	**0.2**	**506.7**
Taxation charge	(0.0)	(0.1)	0.0
NPAT	**0.1**	**0.2**	**506.7**
Cash Flow Statement			
Cash generated by operations	**161.2**	**248.7**	**397.6**
Utilised to increase working capital	12.3	(11.8)	(6.7)
Net interest paid	0.7	(9.2)	(37.7)
Taxation paid	(0.1)	(0.0)	(0.0)
Cash flow from operations	**174.2**	**227.8**	**353.1**
Maintenance capex	0.0	0.0	0.0
Discretionary cash flow from operations	174.2	227.8	353.1
Distributions to linked debenture holders/shareholders	(74.3)	(163.4)	(345.0)
Retained cash flow	**99.8**	**64.4**	**8.1**
Net expansionary capex	(1,926.2)	(1,726.2)	(1,033.5)
Investments and other	0.0	0.0	(235.5)
Proceeds on sale of assets/investments	0.0	240.6	51.4
Shares issued	1,700.0	1,496.4	594.0
Cash movement: (increase)/decrease	(4.6)	(394.2)	40.4
Borrowings: increase/(decrease)	130.9	319.1	575.0
Net increase/(decrease) in debt	**126.3**	**(75.1)**	**615.4**
Balance Sheet			
Ordinary shareholders interest	**1.7**	**3.2**	**5,112.6**
Outside shareholders interest	0.0	0.0	0.0
Linked debentures (capital)	1,836.4	3,940.0	0.0
Total shareholders' interest	**1,838.1**	**3,943.2**	**5,112.6**
Short term debt	130.9	0.0	80.0
Long term debt	0.0	450.0	944.9
Total interest-bearing debt	**130.9**	**450.0**	**1,024.9**
Linked debenture interest/dividend payable	83.8	164.2	0.0
Interest-free liabilities	29.3	82.0	415.8
Total liabilities	**2,082.0**	**4,639.3**	**6,553.3**
Fixed assets	0.0	0.0	0.0
Properties	2,065.4	4,187.0	5,824.8
Investments and advances	0.0	0.0	288.7
Cash and cash equivalent	4.6	398.7	358.3
Other assets	12.1	53.6	81.5
Total assets	**2,082.0**	**4,639.3**	**6,553.3**
Ratios			
Cash flow:			
Operating cash flow: total debt (%)	133.1	50.6	34.5
Discretionary cash flow: net debt (%)	137.9	444.3	53.0
Profitability:			
Rental income growth (%)	n.a	55.0	50.9
EBITDA: revenues (%)*	79.2	78.5	78.3
Operating profit margin (%) *	79.2	78.5	78.3
EBITDA: average total assets (%)	10.2	9.3	8.5
ROaE (%)	8.9	8.2	13.8
Coverage:			
Operating income: gross interest (x)	31.8	7.5	7.7
Operating income: net interest (x)	63.5	21.0	9.5
Activity and liquidity:			
Days receivable outstanding (days)*	9.1	31.9	42.4
Current ratio (:1)	0.1	1.9	0.9
Capitalisation:			
Total debt: equity (%)	7.1	11.4	20.0
Net debt: equity (%)	6.9	1.3	13.0
Total debt: EBITDA (%)	68.3	152.7	231.2
Net debt: EBITDA (%)	65.9	17.4	150.4
Loan to value:			
Total debt: properties (%)	6.3	10.7	17.6
Net debt: properties (%)	6.1	1.2	11.4
Total debt: properties & investments (%)	6.3	10.7	16.8
Net debt: properties & investments (%)	6.1	1.2	10.9

*Calculated against rental income, inclusive of straight line rental revenue adjustments.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS REPORT

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Commitment Fee	A fee paid by a borrower for a lender's commitment to make funds available when required.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Current Ratio	A measure of a company's ability to meet its short-term liabilities and is calculated by dividing current assets by current liabilities. Current assets are made up of cash and cash equivalents ('near cash'), accounts receivable and inventory, while current liabilities are the sum of short-term loans and accounts payable.
Debentures	Debenture is also referred to as a Bond or Note. See Bond.
EBITDA	Earnings before interest, taxes, depreciation and amortisation is useful for comparing the income of companies with different asset structures as it calculated before excluding non-cash expenses related to assets.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds, EBITDA or by the value of investments.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Risk	The potential for losses or reduced income arising from adverse movements in interest rates.
JIBAR	The Johannesburg Interbank Agreed Rate, or JIBAR, is an average of the interest rates indicated by local and international banks, and is the main reference rate used in South Africa.
Joint Venture	A project or other business activity in which two persons or companies partner together to conduct the project.
JSE	JSE Limited (previously the JSE Securities Exchange and the Johannesburg Stock Exchange) is a licenced exchange under the Securities Services Act of 2004 (South Africa).
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity Risk	The risk that a company may not be able to take or meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets.
Loan to value	A ratio used to assess lending risk, usually calculated by expressing the principal balance on a mortgage as a percentage of the market or carrying value of investment properties.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.

Repo Rate	In South Africa the repo rate refers to the rate at which the South African Reserve Bank lends money to banking institution. The money is lent through a repurchase agreement. .
Repurchase Agreement	In a repurchase agreement, or repo, one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Working Capital	Working capital usually refers to net working capital and is the resource that a company uses to finance day-to-day operations. It is calculated by deducting current liabilities from current assets.

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SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Investec Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences as well as written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating(s) has been disclosed to Investec Property Fund Limited with no contestation of the rating.

The information received from Investec Property Fund Limited and other reliable third parties to accord the credit rating included 2014 audited financial statements, (plus two years of comparative numbers), corporate governance and enterprise risk framework, profitability projections for 2015, industry comparative data and regulatory framework, as well as a breakdown of facilities available and related counterparties. In addition, information specific to the rated entity and/or industry was also received.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.