GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Investec Property Fund Limited
R450m Senior Secured Notes

South Africa - Secured Bond Surveillance Report

18 July 2014

Security class	Amount	Stock code	Rating scale	Rating	Outlook	Next review
Senior Secured Notes	R134m	IPF01	National	AA-$_{(ZA)}$	Stable	18 July 2015
Senior Secured Notes	R40m	IPF02	National	AA-$_{(ZA)}$	Stable	18 July 2015
Senior Secured Notes	R50m	IPF03	National	AA-$_{(ZA)}$	Stable	18 July 2015
Senior Secured Notes	R226m	IPF06	National	AA-$_{(ZA)}$	Stable	18 July 2015

Key counterparties:

Issuer: Investec Property Fund Ltd (“**IPF**”)

Security SPV:

Investec Property Fund Security SPV (Pty) Ltd

Trustee of Security SPV Owner Trust:

GMG Trust Company (SA) (Pty) Ltd

Property Manager:

Investec Property Proprietary Limited

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
Senior Secured Notes aggregate issuance amount	R450m
LT senior unsecured rating of the Issuer	‘A-$_{(ZA)}$’/’Positive’ Outlook
Status	Senior secured by real estate assets
OMV of properties	R967m at 31 Mar’14

Capital Structure of Senior Secured 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

Rating history:

Stock Code	Previous Rating	LT rating	ST rating	Rating outlook
IPF01	20 Jan’14	AA-$_{(ZA)}$	n.a.	Stable
IPF02	20 Jan’14	AA-$_{(ZA)}$	n.a.	Stable
IPF03	20 Jan’14	AA-$_{(ZA)}$	n.a.	Stable
IPF06	20 Jan’14	AA-$_{(ZA)}$	n.a.	Stable
Stock Code	**Initial Rating**	**LT rating**	**ST rating**	**Rating outlook**
IPF01	13 Apr’12	A$_{(ZA)}$	n.a.	Stable
IPF02	13 Apr’12	A$_{(ZA)}$	n.a.	Stable
IPF03	13 Apr’12	A$_{(ZA)}$	n.a.	Stable
IPF06	13 Apr’12	A$_{(ZA)}$	n.a.	Stable

GCR contacts:

Mark Vrdoljak
Credit Analyst
markvrd@globalratings.net

Committee Chairperson
Emma-Jane Fulcher
Head: Structured Finance Ratings
fulcher@globalratings.net

Analyst location: JHB, South Africa
Tel: +27 11 784 – 1771
Website: http://globalratings.net

Transaction Summary

Global Credit Rating Co. (“**GCR**”) has affirmed the *final, public* long term ratings of ‘AA-$_{(ZA)}$’ accorded to the Senior Secured Notes (the “**Senior Secured Notes**”) mentioned above. Senior Secured Notes amounting to R450m were issued on 13 April 2012 (the “**Transaction**”).

The *final, public* ratings accorded to the Senior Secured Notes relates to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Rating Rationale

- The high quality pool of real estate assets owned by IPF evidences long term leases and low vacancy levels. This has ensured strong cash flows, underpinned by sound escalations and reversions. As such, margins remain robust and should support comfortable medium term debt serviceability
- With respect to IPF’s entire portfolio, 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%).
- 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.
- With regards to the properties held by the Security SPV, the market value of the properties rose by R86.3m to R967m as at the end of March 2013’s valuation exercise. IPF’s secured portfolio tenancy and lease expiration profile has remained unchanged since the last rating review (conducted in January 2014) as at end March 2014, with the weighted average remaining lease term equating to around 5 years (59.4 months).
- The Issuer and the Security SPV have continued to meet the covenants relating to the Senior Secured Notes, being that of the maximum 50% LTV ratio covenant, an interest cover ratio covenant of no less than 2x which both apply to the Issuer and, in respect of the Security SPV, a 60% maximum LTV ratio.
- 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 rating of the Senior Secured Notes is derived by applying a notching up approach, starting from the long term senior unsecured corporate credit rating of the Issuer. Based on fundamentals and prospects of IPF, GCR has accorded a long term ‘A-$_{(ZA)}$’ national scale corporate credit rating with a ‘Positive’ outlook to the Issuer. A rating uplift of 3 national scale notches was deemed appropriate for this particular transaction, given the “*Excellent Recovery Prospects*”, equating to a ‘AA-$_{(ZA)}$’ rating on the Transaction.
- **GCR analysed the Transaction by applying its:**
  Criteria for Rating Property Funds (August 2013); Global Structurally Enhanced Corporate Bonds Rating Criteria (October 2013); IPF Property Fund R450m Secured Notes New Issuance Report (April 2012); and IPF Corporate Rating Report (July 2014).

GLOBAL CREDIT RATING CO.

Introduction

The Senior Secured Notes were issued on 13 April 2012. The notes are listed 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.

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

Covenant compliance

As per the applicable pricing supplements for the Senior Secured 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.

A LTV ratio covenant of 60% applies to the Security SPV. The LTV ratio is calculated as the total interest bearing debt secured by the Security 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 31 March 2014	Actual ratio
Issuer Interest Cover ratio ≥ 2.0x	7.1x[1]
Issuer LTV ratio ≤ 50%	18.0%[1]
SPV LTV ratio ≤ 60%	46.5%[2]

[1] Source: Investec Property Fund.
[2] As at end March 2014, market valuations as at end March 2013 (valuation exercise concluded in April 2013).
Note: None of the covenants were breached over the review period.

Rating Methodology of the Senior Secured Notes

The rating of the Senior Secured 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 Secured Notes with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries on the Senior Secured Notes 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	14,480,200
Assumed missed interest to give time to realise recoveries	57,049,200
Aggregate exposure Senior Noteholders	**521,529,400**
Assumed recoveries on sale of properties	(448,580,000)
Assumed recoveries on rentals	(81,822,470)
Assumed sales and legal costs	26,914,800
Unsecured claim on Issuer	**18,041,730**
Assumed recovery on unsecured claim	0
Remaining claim	**18,041,730**
Overall estimated recovery rate	**97%**

* For more details, please *Appendix A.*

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 97% carries the qualification "*Excellent Recovery Prospects*". A 3 notch rating uplift on the national scale is deemed to be appropriate for the Transaction (notching from the A-$_{(ZA)}$' national scale corporate credit rating accorded to the Issuer). Accordingly, the 'AA-$_{(ZA)}$' rating of the Senior Notes has been affirmed with a 'Stable' outlook.

Rating Considerations

Meaning of the Rating of the Senior Secured Notes

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

The *final, public* rating accorded to the Senior Secured 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 Secured Notes incorporate 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, is also an expression of expected loss, but refers to probability of default and an average historical loss given default for generalised senior unsecured debt).

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

The rating mentioned above is a national scale credit rating (as opposed to an international scale rating). National scale credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. National scale ratings are not intended to be internationally comparable. The suffix code identifies to which country the rating relates; 'ZA' means Republic of South Africa. A Rating outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

The rating of the Senior Secured Notes will be reviewed at a minimum on an annual basis or as events warrant. GCR will perform regular surveillance on the Transaction. Surveillance reports 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 30 June 2014

- Independent property valuations on all five properties (as at end March 2013).
- Performance data and performance forecasts on IPF's entire portfolio for the financial year ended 31 March 2014.
- Audited Annual Financial Statements for the financial year ended March 2014.
- Forecast income and expenses for the properties secured relating to the 2013 to 2018 financial years.
- Tenant lease schedules for the properties secured.
- Tenant gradings relating to the properties secured.
- Building gradings relating to the properties secured.
- Insurance policies relating to the properties secured.
- Letter confirming no properties (securing the noteholder obligations) have been dual ceded.

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 Secured Notes

The rating of the Senior Secured 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 Secured 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	14,480,200
Assumed missed interest to give time to realise recoveries	57,049,200
Aggregate exposure Senior Noteholders	**521,529,400**
Assumed recoveries on sale of properties	(448,580,000)
Assumed recoveries on rentals	(81,822,470)
Assumed sales and legal costs	26,914,800
Unsecured claim on Issuer	**18,041,730**
Assumed recovery on unsecured claim	0
Remaining claim	**18,041,730**
Overall estimated recovery rate	**97%**

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

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 97% 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 Secured Notes *final, public* rating of 'AA-$_{(ZA)}$' has been affirmed.

Recovery Rate Calculations Relating to the Security for the Senior Secured Notes

1. Principal Amount Outstanding upon Default

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

Capital Structure of Senior Secured Notes

Stock code	Amount (Rands)	Coupon	Maturity date	Length of period till maturity	Interest payment frequency
IPF01	134,000,000	3M Jibar + 1.4%	13 April 2015	10 months	Quarterly
IPF02	40,000,000	3M Jibar + 1.55%	13 April 2016	1 year and 10 months	Quarterly
IPF03	50,000,000	3M Jibar + 1.65%	13 April 2017	2 years and 10 months	Quarterly
IPF06	226,000,000	8.80%	13 April 2017	2 years and 10 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 Secured 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 Secured 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 Secured Notes issued under stock code IPF01, GCR used the 1 year swap rate (6.37% as at 1 July 2014) plus the interest margin (1.40%) as the combined assumed interest rate (7.77% per annum). The 1 year swap rate is used instead of 3M Jibar because the weighted average life of the Senior Secured Notes is assumed to be 10 months, given the bullet nature. Similarly, for IPF02, GCR used the 2 year swap rate (6.82% as at 1 July 2014) plus the interest margin (1.55%) as the combined interest rate (8.37% per annum). For IPF03, GCR used the 3 year swap rate (7.12% as at 1 July 2014) plus the interest margin (1.65%) as the combined interest rate (8.77% per annum). For IPF06, the interest rate as at closing date (8.80% per annum) is utilised as this interest rate is 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 Secured Notes, all properties are eventually sold in a single circumstance. GCR used the independent market valuations of the properties (per end March 2013) 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 Secured Notes, the tenant has an underlying credit quality at least commensurate with the rating of the Senior Secured 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**
Apostolo Pavlo Trading		Medium	Unrated	
Group I Tenants Association		Medium	Unrated	
Maisels Group		Medium	Unrated	
Stansher Developments (Pty) Ltd		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 2014 financial year. 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.

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

Please note that the assumptions, haircuts and stresses applied by GCR (discussed above/tabulated below) relating to the secured properties (and thus the calculation of the potential recoveries and the remaining claim) in a stressed situation 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 Secured Notes may change.

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

Property	Sector	Building Grading[2]	Market valuations as at 1 April 2011 (Rands)	Market valuations as at 1 April 2013 (Rands)
Investec Offices Durban	Office	A	215,000,000	232,000,000
Woolworths House[1]	Office	A	288,000,000	319,000,000
Innovation Group	Office	B	160,000,000	190,000,000
4 Protea Place	Office	A	115,000,000	142,800,000
Makro Montague Gardens	Industrial	B	80,000,000	83,000,000
Total			**858,000,000**	**966,800,000**

[1] This is a leasehold property.
[2] As graded per the Issuer's grading scale.

Property	Tenant	Tenant Grading[2]	Expiry date of current lease	Stressed Value of Properties (Rands)
Investec Offices Durban	Investec Bank	A	2020/04/30	127,600,000
Woolworths House[1]	Woolworths	A	2022/01/31	175,450,000
Innovation Group	Innovation SA	A	2021/08/31	66,500,000
Makro Montague Gardens	Makro	A	2016/06/30	29,050,000
4 Protea Place	Apostolo Pavlo Trading	C	2018/06/30	49,980,000
	Group I Tenants Association	B	2018/02/28	
	Maisels Group	B	2018/02/28	
	Stansher Developments (Pty) Ltd	B	2018/02/28	
Total				**448,580,000**

[1] This is a leasehold property.
[2] As graded per the Issuer's grading scale.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS REPORT

Account Bank	A bank where the transaction account is held.
Applicable Pricing Supplement	A transaction document that describes the particulars of notes issued.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Credit Rating	A rating accorded to the performance of either ultimate or timely payment of obligations.
Credit Rating Agency	A party that provides an opinion on the credit quality of assets, debt securities and companies.
Credit Risk	The probability or likelihood that a borrower will not meet it's debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Gross Lettable Area	Used in commercial property to indicate the amount of floor space rented or available for rental.
JIBAR	Johannesburg Interbank Agreed Rate. A reference rate.
Lien	A right of retention of someone else's property due to expensed money or labour on property acquires a lien until payment is made.
Liquidity Risk	The risk that a financial instrument cannot be traded on it's market price due to the size of the market.
Long Term Rating	A credit rating based on the opinion of the ability to repay long term (more than a year) obligations.
Negative Pledge	A pledge made by a creditor that it will not incur any debt or event that may negatively impact the transaction or entity or material subsidiary.
Novation	An agreement between a creditor and debtor, where the old agreement is extinguished and a new obligation is created in its place.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Paying Agent	An appointed transaction party that is responsible for the payment of Noteholders scheduled interest and principal, as well as other transactional obligations.
Property	Movable or immovable asset.
Rated Securities	Debt securities that have been accorded a credit rating.
Rating Outlook	A Rating Outlook indicates the potential direction of a rating over the medium term, typically a one to two years period. An outlook may be defined as; 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Real Estate	Property that consists of land and / or buildings.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Scheduled Interest	The interest payment due on a scheduled date.
Securitisation Vehicle	See Special Purpose Vehicle.
Settlement Agent	The person that acts on behalf of the debtor for repayment or settlement of obligations.
Special Purpose Vehicle	A Special Purpose Vehicle that has been created to guarantee the performance of the obligations of the Issuer that sold its assets to the Guarantee SPV.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whist reducing risk.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Unsecured Claim	See Debt (Unsecured debt).
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting it's importance or, relative size to a pool of assets or liabilities.

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.

The Issuer and the Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The rating/s above were solicited by the Issuer of the Transaction; GCR has been compensated for the provision of the ratings.

The credit rating/s has been disclosed to the Issuer and the Arranger with no contestation of the rating.

The information received from the Arranger and other reliable third parties to accord the credit ratings included the latest Issuer's audited annual financial statements for the year ending March 2014; an overview of the Issuer's property portfolio as at 31 March 2014; a performance forecast for the period beginning March 2014 and ending March 2016; the insurance policies covering the ceded properties; the applicable Open Market Valuation Reports; and the relevant transaction documents together with the relevant legal and tax opinions.