GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Investec Property Fund Limited

South Africa Corporate Analysis **September 2018**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	A+(ZA)	Stable	August 2019
Short term	National	A1(ZA)		

Financial data:

(USD'm Comparative)

	31/03/17	31/03/18
R/USD (avg)	14.07	12.30
R/USD (close)	13.41	11.83
Total assets	1,423.2	1,686.6
Total debt	476.5	571.2
Total capital	907.4	1,068.8
Cash & equiv.	11.9	42.9
Rental income	117.8	147.2
Operating income	106.7	129.7
NPAT	103.7	101.4
Op. cash flow	64.5	61.3
Market cap.*	R11bn/USD767m	
Market share	n.a	

*As @ 21/09/2018 @ R14.33/USD.

Rating history:

Initial Rating (November 2011)
Long term: BBB+(ZA)
Short term: A2(ZA)
Outlook: Stable

Last Rating (August 2017)
Long term: A(ZA)
Short term: A1(ZA)
Outlook: Positive

Related methodologies/research:

Global Master Criteria for Rating Corporate Entities, updated February 2018

Global Criteria for Rating Property Funds and Commercial Real Estate Companies, Updated February 2018

Investec Property Fund Limited ("IPF") Issuer rating reports, 2011-17

GCR contacts:

Primary Analyst
Sheri Morgan
Senior Analyst: Corporate Ratings
morgan@globalratings.net

Committee Chairperson
Eyal Shevel
Sector Head: Corporate Ratings
shevel@globalratings.net

Analyst location: Johannesburg, ZA

Tel: +27 11 784 – 1771

Website: http://globalratings.net

Summary rating rationale

- The upgrade of IPF's rating is in recognition of its solid credit metrics and earnings resilience at a time when the macroeconomic environment remains weak. Further, IPF's strong liquidity is viewed as a key credit strength. Undrawn credit lines of R1.4bn and held for sale assets of R181m, are more than sufficient to cover R839m in maturing debt and capex costs coming due in the next 12 months. Further, the REIT is far advanced with discussions to early refinance certain FY20 maturities that will lengthen the debt profile. IPF's asset encumbrances remained very low, at 34% of total investments at FY18, comparing favourably to most local peers and gives rise to significant financial flexibility, as does the REIT's good track record of access to debt and equity capital markets.
- IPF has successfully integrated key portfolio acquisitions, with the high-quality direct property pool of R17.6bn displaying good diversity across sectors, assets and tenants.
- The REIT continues to deliver sound rental growth and operating results, which demonstrates resiliency of its portfolio in the challenging operating climate. A degree of softness in operating metrics as the REIT fills an increase in vacant space and applies rental incentives is expected but is viewed in terms of manageable leases expiries of around 15% YoY and offset by sound, above inflation rental escalations for in-place tenants.
- IPF increased its investments in offshore real estate to 11.7% of the investment portfolio post FY18 (FY18: 6.9%), with a view to add to earnings diversity in select international growth regions and sectors. However, GCR considers the complexity of the most recent transaction, combined with the additional gearing assumed to finance the investment to add a degree of credit risk.
- At FY18, the net LTV ratio equated to 32.6%, although has ticked up to around 36% post FY18 on account of acquisition activity. Nonetheless, GCR expects that IPF will continue to finance acquisitions in a leverage-neutral manner so as to adhere to its conservative gearing target of around 35% and maintain ample headroom under the financial covenants in its debt agreements.
- Net debt to operating income has been stable in the 4-4.5x range over the past two years, reflecting predictable income streams. Net interest coverage is adequate at 2.8x.

Factors that could trigger a rating action may include

Positive change: Positive ratings momentum would be dependent on a material increase in scale and diversity. Further, a recovery in the general property environment that supports improved fundamentals could also have a positive bearing on the rating outlook.

Negative change: The REIT's ratings could be downgraded if there is significant deterioration in earnings, and/or a sharp rise in gearing or weaker fixed charge coverage on a sustained basis.

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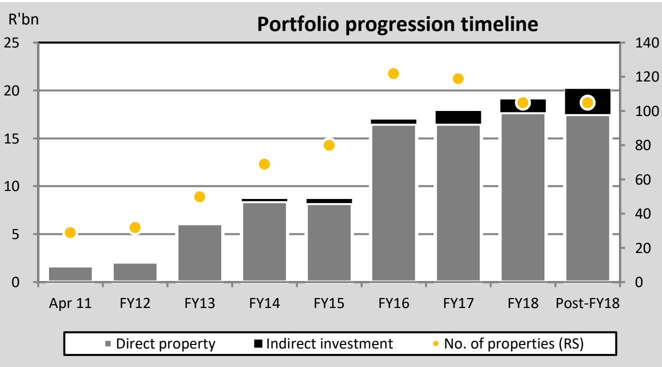
Corporate profile

IPF, an offshoot of Investec Limited ("Investec"), listed on the JSE in April 2011 and was granted REIT status in FY14. IPF's asset and property management is outsourced to Investec Property Proprietary Limited (100% owned by Investec). This arrangement also allows IPF to leverage off the development pipeline within the broader Investec group, as well as linkages with various potential vendors that are long standing Investec clients.

IPF's direct property pool has grown notably through large portfolio acquisitions (most significant being Zenprop and Griffin in FY16) to reach R17.6bn at FY18, comprised of 105 properties. The REIT's strategy remains centred on building up a balanced portfolio of medium to large scale quality assets and progressively expanding its offshore exposure to 20% of the balance sheet to diversify earnings (11.7% post year-end FY18). IPF's international investment strategy is to invest with local partners that have the relevant expertise in the respective markets.

Investments totalling R1.4bn at FY18 included strategic holdings of listed securities, comprising of a 20.9% stake in Investec Australia Property Fund (Australian based), a 9.2% stake in Ingenuity Property Investments Limited (SA based) and more recently 10% in unlisted Investec Argo UK Property Fund (UK based) and a 35% shareholding in Izandla. Izandla, a majority black-owned property company, was established during May 2017, whereby IPF seeded the company with a portfolio of 13 assets, valued at R521m and provided a subordinated loan (R189m) to facilitate the transaction. IPF received net proceeds from the sale of R314m, with the transaction being earnings neutral and cash flow negative in respect of the serviced loan interest.



Post year-end FY18, IPF announced that it has acquired 42.9% equity stake in a Pan-European logistics portfolio of 22 assets across 6 countries for EUR74.2m (R1.1bn). The investment forms part of a commitment to invest up to EUR150m in this platform as part of IPF's overall mandate to raise its international exposure to 20% of assets. The investment is being undertaken through a partnership vehicle, with various investment members providing the remaining equity (towards an ultimate equity value of EUR350m). The property assets will be managed by alternative asset manager Ares Management, L.P. which has extensive experience in alternative asset management.

From IPF's perspective, the initial investment was funded through a combination of existing cash and local debt, as well as a EUR40m four-year term loan with Standard Chartered. While the foreign currency risk introduced by the loan is offset by the expected forex inflows from the investment, the loan has direct recourse to the South African balance sheet, with R1.2bn of local properties initially provided as security. As the investment has been partially debt financed, IPF's LTV ratio has risen to around c.36%. However, GCR considers the complex ownership structure and reduced balance sheet visibility of the investment to increase its business risk. In this regard, IPF's IFRS consolidated financials do not fully reflect its effective share of the in-country debt of the vehicle, which has higher leverage than IPF and thus would elevate its credit metrics.

Shareholding and Corporate governance

IPF continues to secure strong institutional support. Core shareholders were largely unchanged at FY18, with Investec remaining the largest shareholder, with a 26.80% stake.

Table 1: Major shareholders above 5%	FY14	FY15	FY16	FY17	FY18
Investec	45.14	33.95	28.82	27.92	26.80
Coronation Fund Managers	8.29	22.00	24.91	23.28	16.44
Public Investment Corporation	4.12	4.44	5.48	5.63	6.36
STANLIB Asset Management	5.89	2.81	3.24	2.50	5.87
Investec Asset Management	--	--	0.63	4.27	5.41
Directors *	**5.31**	**4.08**	**3.64**	**3.61**	**4.58**

*Includes the directorate of IPF's manager.

As a listed REIT, IPF is subject to the Companies Act and JSE Listings Requirements. Compliance and governance reporting and disclosure is now aligned with King IV codes.

Table 2: Corporate governance summary	
Executive directors	Two
Non-executive directors	Eight, with five independents
Frequency of meetings	Four times p.a. *Ad hoc* meetings where necessary.
Separation of the chairman	Although the chairman is separate from the CEO, he is not independent. Accordingly, a lead independent has been appointed.
Board committees	Audit & Risk; Investment; Nominations; Social & Ethics. Committees are chaired by independents.
Internal control/compliance	Reports to the Audit & Risk committee. The board's effectiveness and performance is evaluated annually.
External auditors	Ernst & Young Inc. has served as IPF's external auditor in all five years under review. Unqualified audit opinions have been issued in each fiscal year.

Property portfolio

Following sizeable acquisitions in FY16, IPF has since focused on refining its investment portfolio with the key purpose of improving quality. At year-end FY18, IPF owned a direct portfolio of 105 properties valued at R17.6bn (FY17: R17.4bn), with 17 assets traded out (including the Izandla transaction) for a total consideration of R691m, whilst three buildings (one office and two industrial buildings) were acquired for R233m. The portfolio valuation increased by 2.6% on a like-for-like basis in FY18, given low vacancies and above inflationary contractual rental growth on the retail properties. Going forward the REIT plans to invest in lower-risk extensions and upgrades of certain properties to maintain their relevance, with the committed capex for the next year totalling R277m.

IPF's portfolio is diversified across the office (37%), retail (40%) and industrial (23%) sectors, which allows the REIT a degree of earnings flexibility to withstand changes in market conditions. The enlarged portfolio also exhibits more asset and tenant diversity. The largest property accounted for a modest 5.3% of the total asset pool and the ten largest 35.6%, compared to 41% in FY15. Tenant concentrations are modest, with the top ten tenants representing 26% of total gross rentals, and the largest tenant at 4.3%. IPF does have properties in all nine provinces, but 64% of revenue is located in Gauteng and 13% and 10% respectively situated in Kwa-Zulu Natal and the Western Cape.

Table 3: Overview- top 10 properties FY18		Book value (R'm)	% contribution	
			Value	GLA
Zevenwacht Mall*	Retail	936	5.3	3.1
Newcastle Mall*	Retail	915	5.2	3.1
1 & 1A Protea Place*	Office	797	4.5	1.6
Dihlabeng Mall	Retail	592	3.3	2.4
Balfour Mall	Retail	560	3.1	2.6
Design Quarter Mall*	Retail	554	3.1	1.9
The Firs	Office	517	2.9	1.0
Musina Mall	Retail	507	2.8	2.4
2929 on Nicol*	Office	503	2.8	1.3
Alrode Multipark	Industrial	463	2.6	7.3
Total		**6,344**	**35.6**	**26.7**

*Properties traded into the fund as part of the Zenprop acquisition.

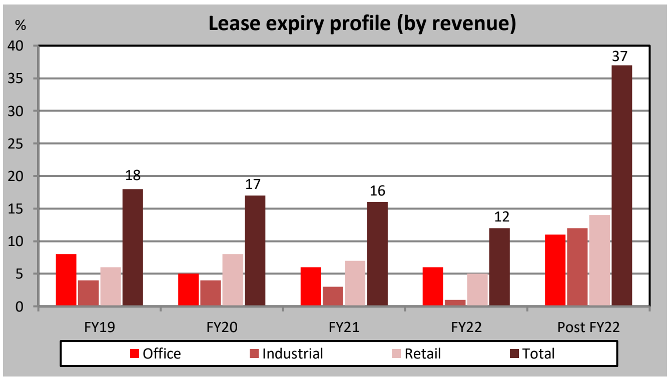
The local operating environment has been characterised by subdued economic growth and constrained consumer confidence. This culminated in industries across the board facing rising operational and occupancy costs while demand remained weak. In turn, this has placed downward pressure on rentals and restricting escalations. Moreover, this is exacerbated by the oversupply of space, particularly in the office sector where new buildings continue to attract tenants from pre-existing office space.

Table 4: Performance indicators by sector		FY15	FY16	FY17	FY18
Retail	YE value (R'bn)	3.5	6.1	6.9	7.0
	% of total revenue	41	39	37	37
	Vacancy by GLA (%)	1.2	1.1	1.3	3.3
	WALE (years)	4.1	3.3	2.9	3.0
	In-force escalations (%)	7.8	7.6	7.4	7.3
Office	YE value (R'bn)	3.2	6.6	6.6	6.5
	% of total revenue	36	38	39	39
	Vacancy by GLA (%)	5.2	0.6	2.2	5.4
	WALE (years)	4.9	4.0	3.4	3.3
	In-force escalations (%)	8.0	8.0	8.0	8.0
Industrial	YE value (R'bn)	1.5	3.8	3.9	4.1
	% of total revenue	23	23	24	24
	Vacancy by GLA (%)	3.0	1.4	1.0	5.7
	WALE (years)	4.0	3.7	3.1	3.7
	In-force escalations (%)	8.6	8.0	7.9	7.9
Total	YE value (R'bn)	8.2	16.5	17.4	17.6
	Vacancy by GLA (%)	2.8	1.1	1.4	4.8
	WALE (years)	4.4	3.7	3.1	3.3
	In-force escalations (%)	8.0	7.8	7.7	7.6

IPF's office properties are 33% single tenanted and 67% multi-tenanted, with GLA largely concentrated in three clusters in the Johannesburg area. These include Sandton (21%), Bryanston (14%) and Rosebank (9%), highly competitive locations which suffer from oversupply. The REIT does, however, benefit from better vacancy rates in these nodes to national levels, as a relatively high percentage of its assets, 60%, are Premium or A grade. Nevertheless, the weak leasing outlook has led IPF to report lower occupancies and utilise retention incentives, which saw YoY base office net property income ("NPI") growth slow to 4.7% (FY17: 5.9%), albeit still sound.

The high-quality of the retail portfolio, comprising 34 assets with a value of R7bn, benefits from sustained low vacancies, despite the uptick reported in FY18. This is as result of unlet space for planned redevelopment, which if excluded would see the vacancy rate equate to 1.2%. Furthermore, the retail portfolio has a good spread of assets across different segments, including community or small regional centres, high street shops and retail warehouses. While the portfolio remains defensive, it has come under some pressure, as evidenced by the lower average escalations, albeit this remains above inflation. Nevertheless, IPF continues to display positive lease spreads on renewals and new leases and supported by the high proportion of national tenants, at 77%, same-store NPI growth remains strong at 7.8% (FY17: 10.6%).

The industrial vacancy rate rose to 5.7% at FY18 (FY17: 1%), on account of the non-renewal of two leases that occupied sizable space. This was as a result of the challenging trading conditions, which are likely to continue to manifest in companies consolidating or downsizing and in some cases business failures. This has been more apparent in traditional industrial that is exposed to the beleaguered manufacturing segment, whilst logistics is confronted by high competition as a number of new modern developments come on stream. IPF's industrial rentals by property type include logistics (47%), manufacturing (19%), warehouses (17%), high tech industrial (9%) and standard units (8%). Pressures have also come through on renewals, with a 3.8% negative revision, although the remainder of the portfolio is fully let, with base NPI growth remaining positive at 4.4% (FY17: 10.2%)



The REIT sustained strong leasing activity throughout FY18, and renewed and re-let 184,940m^2 (73%) of expiring space, generally at slightly higher rentals than in-place leases. Further, a longer WALE of 4.7 years was achieved on this space, which is favourable in view of the WALE of 3.3 years reported at FY18, which is somewhat short although in line with the average for the local market. To ensure a competitive offering, minimise void periods and successfully protect value, management will continue to take active steps in leasing in underperforming sectors, which may entail shorter lease terms and rental incentives to align with market related rates. Nevertheless, IPF's lease expiry profile is considered manageable and partially mitigates headwinds in the office and industrial sectors. To this end, only 8% of office 4% of industrial leases are expiring in FY19, with 5% and 4% expiring respectively in FY20, which is offset by the contractual rent growth from the bulk of in-place leases.

Financial performance

A summary of the financials for the past five years is attached to this report, and brief commentary follows.

Table 5: Property income (R'm)	FY17	FY18	% Δ
Net base income	1,288.7	1,362.6	5.7
Acquisitions	17.7	77.5	337.3
Disposals	99.4	67.1	(33.3)
Net property income *	**1,405.8**	**1,507.2**	**7.2**

* Excludes straight line rentals

IPF continued to report a strong rental performance, albeit reflecting the slowdown across all sectors, with office and industrial most affected as result of sluggish occupancies. NPI growth of the standing portfolio eased to 5.7% (FY17: 8.7%). A level of pressure also emanated from a higher cost base, reflecting higher municipal rates, as well as property management fees (service orientated), security enhancements at properties and leasing commissions linked to active measures undertaken. Further, arrears as a percentage of collectables rose to 3.1% (FY17: 1.9%), indicating the financial stress of certain tenants. Nevertheless, adding to income flows has been increasing cash distributions from indirect property investments, totalling R107m at FY18. IPF has demonstrated a track record of strong operating performance over the review period. The REIT's active management and leasing of its properties has led to consistent growth in its net property income to revenue margin, whilst the operating margin, trending at 85% in FY18, is strong and in line with other highly rated REITs.

Table 6: Portfolio statistics	FY16	FY17	FY18
Weighted avg. net rental (R/m^2)*			
Office	149	158	158
Industrial	48	51	52
Retail	100	110	117
NPI growth-base portfolio (%)	**8.2**	**8.7**	**5.7**
Office	12.0	5.9	4.7
Industrial	3.2	10.2	4.4
Retail	7.5	10.6	7.8
Net cost: income (%)	**16.1**	**15.2**	**16.8**
Office	13.4	14.2	17.0
Industrial	14.3	13.7	14.0
Retail	19.8	17.2	18.2
Arrears (% of collectibles)	0.7	1.9	3.1

*Base portfolio.

Management has hedged 84% of its floating interest rate debt to fixed interest rates with average expiry of 3.8 years at an average all in cost of funding of 8.6% (FY17: 8.9%). Net interest coverage remained adequate at 2.8x in FY18 (FY17: 3.1x). IPF's ability to maintain steady profitability despite the current market slowdown is positively considered in spite of the moderately weaker interest coverage.

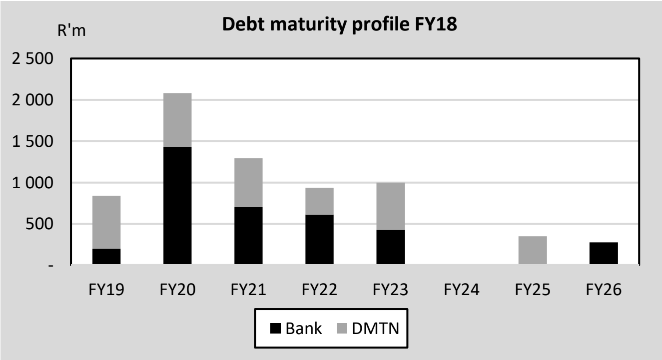
Cash generated by operations was closely aligned to EBITDA and remained robust, trending well above R1bn over the past two years. Post FY16, expansionary capex has remained moderate, although note is taken of the material outlay post 1H FY18. The REIT derived R672m in cash from the disposal of properties, from R351m in the prior year, with the trading out of assets expected to make a continued contribution to cash flows over the rating horizon. This together with an additional equity issue to counterbalance new debt raised, as per conservative financial policies, translated to a modest increase in net borrowings in FY18.

Funding and liquidity

The REIT adheres to conservative financial policies, which centre on managing the net LTV around 35% and a maximum of 40% for transactional purposes. At FY18, the net LTV ratio equated to 32.6%, with net debt to operating income stable in the 4-4.5x range over the past two years, reflecting predictable income streams. Post the acquisition of the Pan-European logistics portfolio, which was fully debt funded, the LTV has risen to around 36%. GCR expects that IPF will continue to finance acquisitions in a leverage-neutral manner and maintain ample headroom under the financial covenants in its debt agreements.

Table 7: Debt funding profile (R'm)	Facility	FY17	FY18
Unsecured bank loans	**2,950**	**1,873**	**1,751**
Investec GBF	300	52	-
Nedbank	800	630	630
Standard Bank	1,400	830	760
Investec	450	361	361
Unsecured DMTN	**-**	**2,092**	**2,404**
Commercial paper	-	262	274
Tranches	-	1,830	2,130
Secured bank loans	**2,110**	**1,690**	**1,890**
Nedbank	510	410	410
Standard Bank	800	500	700
OM Spec Fin	700	700	700
Investec	100	80	80
Secured DMTN	**-**	**751**	**725**
Total debt, less unamortised fees		**6,390**	**6,757**

The ratings also recognise the REIT's good track record of access to debt and equity capital markets, with frequent equity issuances having supported expansion while maintaining low leverage. IPF has maintained good relationships with multiple major financial institutions together with active use of its DMTN programme, from which it has borrowed, on unsecured basis as well. Accordingly, IPF's asset encumbrances remained very low, at 34% of the property portfolio valuation at FY18, comparing favourably to most local peers and is a major strength to financial flexibility. Whilst encumbrances rose to c.39% post the European transaction, management remains committed to not unduly increasing its secured debt levels.



IPF's liquidity is adequate and is supported by undrawn credit lines of R1.4bn and held for sale assets of R118m, which covers R839m in maturing debt and capex costs coming due in the next 12 months. The majority of revolving credit facilities are uncommitted, but have been in place for a number of years. Listed property investments of R1.2bn also provide an additional liquidity source for IPF. The REIT faces a large maturity wall in FY20 with around R2bn/30% in debt expiring. Nevertheless, GCR understands that refinancing discussions are far advanced to early refinance some of these maturities with longer tenors of 3 or 5 years, which would push out the current average debt expiry of 2.7 years (FY17: 3.2 years).

Investec Property Fund Limited

(Rand in millions except as noted)

Income statement Year end : 31 March	2014	2015	2016	2017	2018
Rental income	520.9	725.7	1,102.6	1,657.6	1,810.5
Straight line income	45.1	120.8	92.3	122.7	52.7
Total revenue	**566.0**	**846.4**	**1,194.8**	**1,780.3**	**1,863.2**
Property expenses	(90.6)	(120.6)	(177.8)	(251.8)	(303.4)
Net property income	**475.4**	**725.9**	**1,017.0**	**1,528.5**	**1,559.9**
Distributable earnings from associates and investments	7.4	33.0	46.6	28.6	107.5
Administration and other expenses	(32.1)	(42.7)	(49.3)	(56.3)	(72.6)
Operating income	**450.7**	**716.1**	**1,014.3**	**1,500.7**	**1,594.8**
Net finance income (charge)	(39.0)	(111.9)	(246.8)	(488.1)	(561.7)
Interest on derivatives	(7.6)	(15.1)	(23.9)	(21.2)	(8.9)
Fair value movements	211.6	293.1	358.3	446.3	230.7
Profit (loss) on property disposals and other	11.0	2.4	13.6	27.1	2.7
Distribution to linked debenture holders	(119.9)	0.0	0.0	0.0	0.0
NPBT	**506.7**	**884.7**	**1,115.5**	**1,464.8**	**1,257.6**
Taxation charge	0.0	0.0	(2.0)	(6.1)	(9.9)
NPAT	**506.7**	**884.7**	**1,113.5**	**1,458.7**	**1,247.7**
Cash flow statement					
Cash generated by operations	**397.6**	**567.2**	**906.5**	**1,366.0**	**1,451.0**
Utilised to increase working capital	(6.7)	45.9	(0.1)	53.2	(130.3)
Net interest paid	(37.7)	(108.7)	(253.6)	(510.3)	(574.3)
Taxation paid	(0.0)	0.0	(2.0)	(0.8)	7.1
Cash flow from operations	**353.1**	**504.4**	**650.8**	**908.2**	**753.6**
Distribution paid to linked debenture holders	(345.0)	(426.0)	(711.4)	(673.6)	(979.2)
Retained cash flow	**8.1**	**78.4**	**(60.6)**	**234.5**	**(225.6)**
Net expansionary capex	(1,033.5)	(1,671.4)	(6,503.7)	(497.9)	(358.1)
Investments and other	(235.5)	(197.7)	(71.2)	(831.9)	(312.7)
Proceeds on sale of assets/investments	51.4	11.5	166.8	350.9	672.4
Shares issued	594.0	456.7	2,717.8	256.0	207.3
Cash movement: (increase)/decrease	40.4	297.3	7.5	(105.9)	(348.0)
Borrowings: increase/(decrease)	575.0	1,025.1	3,743.4	594.3	364.6
Net increase/(decrease) in debt	**615.4**	**1,322.4**	**3,751.0**	**488.3**	**16.6**
Balance sheet					
Total shareholders' interest	**5,112.6**	**6,615.8**	**11,097.1**	**12,167.9**	**12,643.8**
Short term debt	80.0	334.0	699.1	759.4	839.0
Long term debt	944.9	1,718.1	5,093.5	5,630.9	5,917.7
Total interest-bearing debt	**1,024.9**	**2,052.1**	**5,792.6**	**6,390.3**	**6,756.7**
Linked debenture interest payable	0.0	0.0	0.0	0.0	0.0
Interest-free liabilities	415.8	166.6	356.0	526.5	552.4
Total liabilities	**6,553.3**	**8,834.5**	**17,245.8**	**19,084.7**	**19,952.9**
Properties	5,824.8	8,201.6	16,459.7	17,371.5	17,598.9
Indirect investments	288.7	502.1	531.8	1,391.6	1,358.0
Loans and advances	0.0	0.0	0.0	0.0	207.2
Cash and cash equivalent	358.3	61.0	53.5	159.4	507.3
Other current assets	81.5	69.8	200.8	162.3	281.4
Total assets	**6,553.3**	**8,834.5**	**17,245.8**	**19,084.7**	**19,952.9**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	34.5	24.6	11.2	14.2	10.3
Profitability:					
Rental income growth (%)	57.2	39.3	51.9	50.3	18.3
Net property income : revenues (%)	76.0	71.5	77.4	79.0	80.9
Net cost : income (%)	17.4	16.6	16.1	15.2	16.8
Operating income : revenues (%)	77.9	82.0	83.6	83.1	85.2
Return on assets (%)	8.6	9.6	7.8	8.3	7.7
Coverage:					
Operating income : gross interest (x)	9.1	5.9	4.0	3.0	2.7
Operating income : net interest (x)	11.6	6.4	4.1	3.1	2.8
Operating income : net interest incl. charge on derivatives (x)	9.7	5.6	3.7	2.9	2.8
Activity and liquidity:					
Trading assets turnover (x)	6.7	9.3	9.8	14.3	13.3
Current ratio (:1)	0.2	0.5	0.5	0.4	0.5
Capitalisation:					
Total debt : equity (%)	20.0	31.0	52.2	52.5	53.4
Net debt : equity (%)	13.0	30.1	51.7	51.2	49.4
Total debt : operating income (%)	252.7	344.7	628.2	463.7	474.7
Net debt : operating income (%)	164.4	334.4	622.4	452.2	439.0
Loan to value					
Total debt : properties (%)	17.6	25.0	35.2	36.8	38.4
Net debt : properties (%)	11.4	24.3	34.9	35.9	35.5
Total debt : properties & investments (%)	16.8	23.6	34.1	34.1	35.3
Net debt : properties & investments (%)	10.9	22.9	33.8	33.2	32.6

Note: Ratios based on rental revenue, op. income have been adjusted to exclude straight-lining rental accruals.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exercise	To exercise an option is to use the right of the holder to buy or sell the underlying asset on which the option is based at the strike price.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
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.
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 or by EBITDA.
GLA	GLA is the portion of the total floor area of a building that is available for tenant leasing, and is usually expressed in square meters or square feet.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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 Swap	An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
Long-Term Rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
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.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity’s rating over the medium term, typically one to two years. 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 Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer’s ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Tranche	Used to mean an allocation or instalment of a larger loan facility. Tranches of the same debt programme may differ from each other because they pay different interest rates, mature on different dates, carry different levels of risk, or differ in some other way.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; d.) the validity of the ratings 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 and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Investec Property Fund Limited.

The information received from Investec Property Fund Limited and other reliable third parties to accord the credit ratings included;

- 2018 audited financial statements (plus four years of prior comparative audited numbers);
- Investor presentation,
- a breakdown of facilities available and related counterparties, and
- Other non-public information

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.