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Investec Property Fund Limited

South Africa Corporate Analysis **August 2015**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	A(ZA)	Stable	July 2016
Short term	National	A1(ZA)		

Financial data:

(USD'm Comparative)

	31/03/14	31/03/15
R/USD (avg)	10.11	11.06
R/USD (close)	10.58	12.09
Total assets	619.4	730.7
Total debt	96.9	169.7
Total capital	483.2	547.2
Cash & equiv.	33.9	5.0
Turnover	56.0	76.5
EBITDA	43.8	61.8
NPAT	50.1	80.0
Op. cash flow	34.9	45.6
Market cap*	USD583.6m	
Market share	n.a	

*As @ 14 August 2015 @ R12.81/USD.

Rating history:

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

Last Rating (July 2014)
Long term: A-(ZA)
Short term: A1-(ZA)
Outlook: Positive

Related methodologies/research:

Criteria for rating corporate entities, updated February 2015

Criteria for rating property funds, updated April 2015

Investec Property Fund Limited ("IPF, the fund or the REIT") rating reports, 2011-2014

IPF R450m Senior Secured Notes: New Issuance/Surveillance Reports, 2012-2015

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Summary rating rationale

- Acquisition of the R7.1bn Zenprop portfolio and the R826m Griffin transaction will raise the value of investments to c.R16.4bn, versus R8.7bn at FYE15, and just R1.7bn at listing. This comfortably places the REIT on the upper end of middle tier domestic REITs in terms of scale. Albeit initially income dilutive for shareholders, the Zenprop deal adds quality, defensiveness and income predictability to an already robust portfolio, enhancing (*inter alia*) the WALE and tenant quality.
- While Investec Limited's ("Investec, or the group") direct stake has been reduced (FYE15: 34%; FYE14: 45%), it continues to provide support to IPF. The fund's branding represents reliance on the group network, a strong asset manager with proven real estate credentials, liquidity support, access to Investec's clientele, systems and a substantial property stable.
- Prior to the Griffin and Zenprop acquisitions, the top 10 properties made up 41% of the portfolio's carrying value at FYE15, from a high of 75% at FYE12. Single-tenanted assets accounted for 45% of revenue, and while 'A' grade tenancies decreased to 63% due to the higher retail exposure at FYE15, incorporation of Zenprop properties should see it revert to around the 70% level.
- Vacancies have been reported at low levels over the review period (F15: 2.8%), and are expected to ease further with the inclusion of the Zenprop assets, while the fairly long average lease expiry reflects the quality of properties held and strong management execution.
- Acquisitions supported a 50% increase in rental income to R846m in F15, while the base portfolio achieved growth of 9.4% (F14: 5.5%), on the back of robust letting activity and escalations. Despite a higher retail weighting, the operating margin rose to 80.7% in F15 (F14: 78.3%), supported by sound recoveries and cost rigour. Rising utility costs, taxes and rates are, however, likely to curtail industry margins, as will pressure on renewal rates from stressed tenants in the medium term.
- The funding profile is very conservative, on the back of R5.8bn in equity raised since listing to July 2015. Despite a R1.3bn net rise in debt to R2.1bn at FYE15, the net LTV therefore registered well below GCR's 40% benchmark for 'A' rated REITs, at 24% (FYE14: 11%). Although having risen to 292% (FYE14: 150%) due to the earnings drag attributed to assets transferred late in 2H F15, net debt to EBITDA is comfortable compared to GCR's 400% benchmark for 'A' rated funds. The gross LTV ratio is projected at 35% post the Zenprop deal, and will be managed around this level in the medium term.
- Albeit having fallen to 5.4x (F14: 9.5x), interest cover is well above the 2.5x threshold for 'A' rated funds. Liquidity is supported by an atypically low asset encumbrance (FYE15: 26%), ample untapped facilities, the DMTN programme and proven shareholder support.

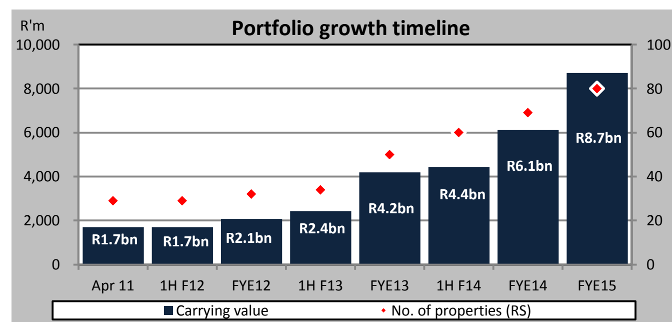
Factors that could trigger a rating action may include

Positive change: The ability to sustain high quality cash flows despite the challenging operating environment would result in an upward review in the medium term. As such, robust execution in respect of securing and bedding down well-timed acquisitions, and maintaining prudent credit protection factors would bode positively.

Negative change: Albeit considered unlikely, much higher than planned gearing levels (due to deteriorating market fundamentals or unanticipated financial risk) could exert downward pressure on the ratings.

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 1 April 2013. It adopted an all-equity structure in August 2013, with its delinked shares listing for trade in November 2013.



IPF has grown materially since listing, underpinned by large, albeit fairly well-spaced property acquisitions. Its total portfolio's value registered at R8.7bn at FYE15, of which R502m represented a 19% stake in Investec Australia Property Fund ("IAPF"). Although soundly performing assets have been added to the fund, the base portfolio continues to reflect stable fundamentals, on the back of strong management oversight. To minimise investment and capital risk, potential acquisitions have to meet strict criteria with respect to tenant profiles, performance, positioning and scale (*inter alia*). IPF does not normally buy assets requiring major work nor does it invest in Greenfields, thus minimising project risk. The REIT also only enters into joint ventures with affiliates or to procure properties adjacent to its existing assets. To date, the only disposals have been those of assets that are taken over by tenants or small, non-core properties. In F15, three properties were sold for R58m, returning a R7m capital profit, which brought the total realised from disposals since listing to c.R350m.

Table 1: Acquisitions, F15	GLA (m^2)	Cost (R'm)	Yield (%)	Transfer date
Dihlabeng Mall	26,210	370	8.0	Jul-14
30 Jellicoe Ave	10,750	352	8.0	Feb'15
Fleurdal Mall	24,370	311	8.0	Feb'15
Toyota Menlyn	6,709	126	8.3	Mar-15
McCarthy Menlyn	7,346	115	7.8	May-15
Diesel Rd, Isando	22,057	112	9.3	Feb'15
Other°	46,553	465	n.a	n.a
Total	**143,995**	**1,851**	**8.2**	

°Consists of nine properties acquired at a consideration of less than R100m apiece.

IPF has reported significant acquisitive activity post year end, in line with guidance provided to the market. The largest transaction to date is the R7.1bn agreement with Zenprop, effective the first day of the month after fulfilment of conditions precedent. The purchase price is at a competitive yield, and translates to a R503m increase in IPF's rental income in the 12 months to 31 October 2016. The portfolio consists of high quality office, retail and industrial assets with a WALE of 4.3 years (inclusive of agreed rental guarantees on certain properties), which are 80% let to 'A' grade tenants. The deal also gives IPF right of refusal over 140 West Street (27,000m^2 of prime space). Funding will derive from:

- a rights offer of c.R2.6bn, of which R1.7bn is covered by commitments and indications of support. In the unlikely event that a portion of the R0.9bn balance is not fully subscribed for, it will be allotted to Zenprop at the (ex-dividend) rights offer price of R15.00/share;
- R1bn *via* issue of IPF and IAPF shares to Zenprop at R16.51/share and R11.58/share respectively (at a contribution of R0.8bn and R0.2bn respectively); and
- R3.6bn in debt, which will elevate IPF's gross LTV to c.35%, before any revaluation adjustments to the total property portfolio for F16.

Table 2: Zenprop portfolio	GLA (m^2)	Value (R'm)	Yield (%)	Net rental/m^2
1 & 1A Protea Place	20,066	795	8.0	200.0
Zevenwacht Mall	39,956	773	7.1	106.1
Newcastle Mall	39,360	770	6.7	112.5
Design Quarter Mall	25,743	560	7.5	126.7
2929 on Nicol	16,149	496	7.2	136.0
Brandhouse	36,800	410	7.4	69.3
3 Sandown Valley Crescent	13,889	355	8.1	133.6
4 Sandown Valley Crescent	11,020	336	8.1	158.5
Other°	194,290	2,565	n.a	n.a
Total	**397,273**	**7,060**	**7.5**	**n.a**

°Consists of 19 properties acquired at a consideration of R35m-R277m.

In June 2015, IPF announced an agreement to procure 22 properties from Griffin Holdings for R826m (to be paid for by raising R561m from new shares, cash and debt). The Griffin transaction, which got Competition Commission ("CC") approval in August 2015, is at a 9.3% yield (8.6% excluding above market contractual rentals). The portfolio is considered strategic in that it is dominated by industrial assets (71% of value acquired) and gives IPF right of first refusal to over 156,000m^2 of mostly tenanted GLA, the most prominent being Unilever's 105,932m^2 distribution facility. National tenants and muti-nationals occupy 80% of the GLA of the 18 industrial properties. The two transactions bring the REIT's balance sheet to c.R16.4bn before fair value changes for F16 or any other acquisitions and additional capital raised (versus an orginal target of R10bn for the medium term). This places IPF in the upper echelon of middle scale listed REITs (gauged by locally domiciled property exposures). The fundamental enhancement in IPF's scale and quality of cash flows underscores strong management execution and bolsters the Issuer ratings.

Shareholding and corporate governance

Table 3: Major shareholders (%)	FYE14	FYE15
Investec	45.14	33.95
Coronation Fund Managers	8.29	22.00
Public Investment Corporation	4.12	4.44
S Giuricich Holdings	4.75	4.00
STANLIB	5.89	2.81
Directors (incl. the directorate of the fund's manager)	5.31	4.08

Investec's shareholding has been progressively diluted (from 50% at listing), either as it has sold its shares to the public through book builds to fund future growth, or when IPF has issued new shares as partial consideration for acquisitions. Investec's sale of its IPF shares has, however, usually been followed by support by way of subscriptions for new IPF shares *via* vendor placement and by opting to reinvest its dividend. To facilitate the Griffin acquisition, Investec Bank sold 35.8m of its IPF shares for R561m (through a book build), and has also undertaken to acquire new IPF shares (at the same price as the book build) once all conditions precedent to the acquisition have been met or waived. The reduced shareholding is part of Investec's strategy with respect to the longer term capitalisation of IPF, and has built up active institutional investment in the REIT, injecting further liquidity into the entity. This has enabled IPF to maintain very low LTVs despite a fairly rapid growth trajectory.

Given Investec's long term view towards IPF, and the mitigation of key man risk (evidenced by clear retention policies, succession planning and an enhanced reporting and remuneration structure), the relationship is still a key ratings consideration. This is especially so as the branding is reflective of palpable support channelled *via* asset manager Investec Property Proprietary Limited ("Investec Property"), currently engaged on a seven year, renewable contract. The manager has secured strong institutional support to fund the growth achieved since listing. Furthermore, most of IPF's acquisitions have come from the Investec property stable (FYE15: R1.1bn; FYE14: R616m) and its banking clientele. Accordingly, Investec Property has had oversight of most of the assets for several years. Investec has provided rental guarantees on some of these assets to smooth out IPF's revenues until desired occupancies are achieved. Access to Investec's systems and processes as part of the acquisition and leasing due diligence/vetting also serve as important competitive advantages. When required, the REIT's liquidity is enhanced by credit lines from Investec Bank (rated $AA-_{(ZA)}$ by GCR).

A major recent development with respect to governance was the appointment of Nick Riley as CEO. A former Senior Investment Banker with Investec Corporate Finance, Nick has been involved in the execution of R70bn in real estate transactions, and therefore brings a wealth of experience to IPF. Despite having stepped down from an executive role, Sam Leon remains as Deputy Chairman. IPF is subject to the Companies Act, JSE regulations in addition to its Memorandum of Incorporation ("MoI") requirements. It also adheres to King III, with one deviation, which is not considered material. IPF does not have its own staff, and directors are paid by Investec Property from fees earned on the management contract. Executive directors have a long track record in Investec Property and various real estate segments, with the chairman 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. As the chairman is not an independent, the board has a lead independent with strong property sector credentials.

Table 4: Corporate governance summary	
Executive directors	2
Non-executive directors	7 (after June 2015 appointment of Khumo Shuenyane).
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	Reports to the Audit & Risk committee. The board's effectiveness and performance is evaluated annually.
External auditors	Ernst & Young Inc. An unqualified audit opinion was issued for F15.

Investment portfolio

IPF remains focused on building up and maintaining a medium-large scale portfolio of income-generating office, retail and industrial assets. Active management of these properties (acquired at competitive prices) is expected to sustain sound capital and income returns for shareholders in the long term. Accordingly, dilutive acquisitions may occasionally be made, if IPF is of the view that they will support sound future income streams and capital growth. The REIT has also maintained an indirect exposure to the Australian property sector by retaining a stake in JSE-listed affiliate IAPF.

Table 5: REIT strategy pillars	
Focused property fundamentals	Long term focus, with net property income growth at the core; targets well-positioned, high quality assets; long lease expiries and sustainable, above-inflation escalations.
Long term growth	Targets niche opportunities and quality assets, and thus growth in itself is not a primary focus; extensions should be simple or income enhancing.
Intense asset management	Hands-on asset management; active property management oversight and delivery to tenants; efficient cost base; strong letting performance and tenant retention.
Balance sheet management	Conservatively geared acquisitions and balance sheet; hedging strategy to ensure sustainable growth.
Relationships	Leverages off the Investec network and extensive industry experience; driven management, as evidenced by delivery on KPIs; building sustainable stakeholder relationships.
Sustainability	Sustainability in respect of business practices; environment, and empowerment; corporate social investment initiatives.

At FYE15, the value of total investments was five times that of the listing portfolio, at R8.7bn. Taking into account the properties that had been transferred, total GLA rose by 20% in F15. This resulted in a slight moderation in the top 10 assets' contribution to the total carrying value (41%; FYE14; 44%). Concentration in this respect has fallen considerably, from a high of 75% at listing (FYE13: 55%). In addition, the top two assets (Balfour Mall and Dihlabeng Mall) contributed c.5% apiece, compared to the position at FYE14, when four properties each made up c.6% of total carrying value.

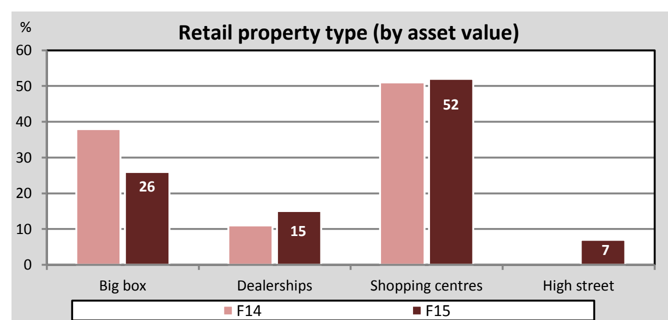
Table 6: Performance overview	F13	F14	F15
GLA (m^2)	568,151	693,256	831,990
Avg. value per property (R'm)	83.4	84.4	108.8
Distribution per share, FYE (cents)	100.0	108.2	119.2
Price/share, FYE (Rand)	16.21	14.49	17.01
NAV/share (Rand)	12.43	13.98	15.15
Major provinces (by revenue)			
GP	67	70	69
WC	14	12	11
FS	1	2	6
MP	2	6	5
Limpopo	5	5	4
KZN	9	4	n.a*
Vacancy rate (% of GLA)	2.9	2.6	2.8
Single tenanted-by GLA	40	46	47
Single tenanted-by revenue	55	47	46
'A' grade tenants (% of GLA)	71	63	62
'A' grade tenants (% of revenue)	73	70	67

*At FYE15, KZN and three other provinces contributed a combined 5% of revenue.

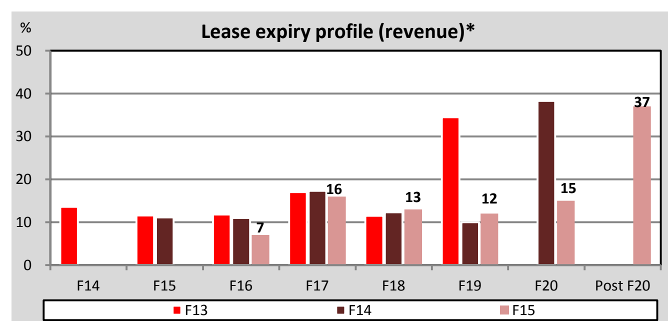
Regional concentration is not deliberate, although IPF targets well-positioned properties in certain business nodes. For example, management has built up a sizeable portfolio of office space in parts of Bryanston, recently augmented by Nicol Main Office Park. Retail properties reflect more regional dispersion, and tend to be niche or dominant properties, largely catering to the mid to high LSM segments. In respect of scale, however, these are mostly community and small regional centres, with the two largest post Zenprop having respective GLAs of nearly $40,000m^2$. As with most domestic REITs, IPF's Gauteng properties will continue to dominate. In the Zenprop portfolio, for example, the province makes up 55% of GLA. Shifts in the ancillary provinces' revenue and GLA contributions are, however, likely as IPF's total portfolio expands.

IPF's sector profile shows the rising prominence of retail, especially with respect to revenue. This followed the acquisition of retail assets worth R1.5bn, split between big box format assets and shopping centres. A further R1.2bn was acquired in F14 and F15, dominated by Dihlabeng Mall and Fleurdal Mall (purchased at a combined cost of R681m). Accordingly, retail anchored the portfolio in terms of asset value (42%) and revenue

at FYE15 (41%), from the respective 37% and 45% contributions at FYE14. Acquisition of larger, multi-tenanted retail properties led to the apparent disparity in the FYE14 revenue split, wherein the retail contribution had risen materially, while that of office contracted to 33%, from 42% previously. The dominance of retail properties also accounts for the dilution in 'A' grade tenants. Despite this shift, listed companies, nationals, large corporates and professional firms make up 84% of total revenue.



The lease expiry profile on the portfolio prior to post year end acquisitions remains well-spaced, with 37% of in-force contracts expiring after five years (FYE14: 38%). This has been achieved on the strong letting activity in industrial and retail, as well as the long term contracts inherent in new acquisitions. Albeit having eased marginally to 8.0% (F14: 8.1%), the REIT's rental escalations on in-force contracts and new leases remain robust. The moderation is partly attributable to the rising retail weighting, given the sector's inherently lower (albeit stable) escalations.



*Tail end F13 and F14 expiries stretched beyond one year.

IPF's occupancy rates remain close to the highest levels reported in the local listed REIT space, despite its fairly large industrial and office portfolios. While vacancy rates could fluctuate with future acquisitions, they are projected to reduce further with the incorporation of the Zenprop portfolio, which has a vacancy of just 0.5% (after rental guarantees). This shows the conservative stance on acquisitions (IPF typically does not purchase assets with high vacancies, unless they have strong upside potential). Extensive research, its relationships with property brokers and strong due diligence ensure that the fund does not pay for vacant space upfront, or overpay for properties with high vacancies. Due to their superior average rental rates compared to other retail formats, shopping centres underpin the sector's strong input to revenue. The constitution of retail will change notably with the transfer of three Zenprop malls with a total value of R2.1bn, the largest being Zevenwacht, (transaction value: R773m). Box format property tenant profiles are similar to those of shopping centres, while dealerships are mostly let to 'A' and 'B' grade tenants. The bulk of the individual properties are fully let, and are anchored by long term leases with large retailers, supporting one of the longest retail WALE profiles in the industry. The highest vacancy at FYE15 (c.25%) related to an asset making up 0.9% of the retail GLA, and thus had a negligible impact on overall metrics. While Kriel Mall's vacancies were also an outlier at around 6%, the overall retail rate remained negligible. The modest drop in vacancies, coupled with positive reversions on new rentals (10%), supported the sound growth in net income of 9% from the base portfolio. The scale, format and positioning of its retail assets provides some insulation from waning consumer spend, which has curtailed the performance of most small regional and community centres in the country.

Table 7: Retail statistics	F13	F14	F15
Avg. value/property (Rand)	84.6	77.8	106.1
Closing valuation (R'bn)	1.7	2.1	3.5
Vacancy by GLA (%)	2.6	2.0	1.2
In-force escalations (%)	7.7	7.8	7.8
% of total GLA	33	33	35
% of total revenue	23	41	41
WALE (years)	3.8	3.7	4.1

Office's contribution to revenue had picked up slightly at FYE15, albeit remaining behind historic levels. The dilution was expected, given the strong ramp up in the retail portfolio in recent years. The base office portfolio nonetheless achieved above inflation net rental income growth of 7.4%, anchored by 'A' grade tenants, which accounted for 65% of GLA (FYE14: 83%). Moderation in the 'A' grade occupancies is mainly attributed to the trade in of new assets. Despite industry challenges, the tenant retention remains high, and underpins robust escalations on in-force leases. Single tenancies eased to 45% of office GLA (FYE14: 47%), reporting a lower WALE of 4.9 years (F14: 5.6 years). Investec Durban, Woolworths House and Innovation Building remain key anchors, while additional revenue uplift will come from 30 Jellicoe (FYE15 value: R352m), which transferred in February 2015. Inclusive of 1 & 1A Protea Place, 10 Zenprop assets with a combined cost of R3.4bn will bring in R319m in office rentals in their first 12 months. In F15, office reported the highest vacancy rate in the total portfolio, albeit attributed to one asset that made up less than 1% of GLA (and has since been sold).

Table 8: Office statistics	F13	F14	F15
Avg. value/property (Rand)	187.4	117.6	152.4
Closing valuation (R'bn)	1.5	2.4	3.2
Vacancy by GLA (%)	7.3	5.1	5.2
In-force escalations (%)	8.1	8.0	8.0
% of total GLA	16	19	20
% of total revenue	42	33	36
WALE (years)	6.7	5.6	4.9

Industrial achieved a robust 12% uplift in base rentals, in F15 as the full benefits of strong letting activity from 2H F14 filtered through. Although the environment is still challenging, rates improved from five year lows, a trend especially evident in well-positioned industrial nodes. Against this backdrop, IPF let 51,000m^2 in F15, and is in advanced negotiations to let another 50,000m^2 in F16. Industrial achieved an 11% positive reversion on let space, excluding renewal on one lease, from 17% in F14. Prior to the Zenprop/Griffin transactions, Alrode Multipark was the marquee property, making up 23% of the sector's value at FYE15. In-force escalations are the

highest in IPF's overall portfolio, albeit that this should be considered against the modest rental rates achieved in comparison to other sectors. The cost to income ratio improved materially in F15, and recoveries remain well controlled. Industrial's scale is to be bolstered by the transfer of the Griffin portfolio, as well as eight assets with a cost of over R100m from Zenprop (total value: R1.6bn). In view of the size of most of the new assets, the sector's concentration will ease notably. Looking ahead, IPF also intends to trade out the smaller assets in favour of higher quality, better positioned properties.

Table 9: Industrial statistics	F13	F14	F15
Avg. value/property (Rand)	45.3	52.0	57.7
Closing valuation (R'bn)	0.8	1.3	1.5
Vacancy by GLA (%)	1.8	2.0	3.0
In-force escalations (%)	8.2	8.7	8.6
% of total GLA	51	48	45
% of total revenue	35	26	23
WALE (years)	2.7	3.5	4.0

Operating environment

Real GDP growth slowed further to 1.9% in 2014, from 2.2% in 2013. This was largely driven by labour unrest, which particularly affected mining and manufacturing. Performance in 2015 remains weak, as manufacturing continues to lose ground due to power disruptions, while mining earnings are under pressure from low metal prices. The Rand traded weaker against major currencies in F14, closing 2014 at R11.61/USD (YE 2013: R10.50/USD), and in August 2015 breached the prior all-time low, briefly trading over R14.00/USD. This continues to stoke inflation, and has seen the SARB effect a 100b.p. cumulative hike in the repo rate since 2014. Rising consumer strain has forced a contraction in corporate fixed capital formation while fiscal constraints have reduced government spend. Despite reduced oil prices and weak commodity prices, rising administered costs, endemic power shortages and the current drought are also contributing to inflationary pressures, whilst slowing the economy further.

Retail's robustness in comparison to other sectors has moderated, as disposable incomes come under pressure from elevated cost pressures and the sharp drop in unsecured credit extension to consumers. This is to an extent borne out by slower than anticipated growth in retail sales evidenced recently. While national retail sales grew by 3.5% YoY in June 2015, this was off a low 2014 base. According to SAPOA, retailers' cost of occupancy rose to a 10 year-high in 2014, due to rising administered costs. As property owners have tried to anticipate rising common area and other costs, rental escalations have outstripped retail sales growth, mainly in small metropolitan centres.

By contrast, the domestic office sector generally still has high vacancy rates, mainly due to a combination of waning demand and a glut of space outside the prime and well-positioned 'A' grade buildings. According to SAPOA, the national vacancy rate registered at 10.6% in 2Q 2015 (0.6% down QoQ) from a high of 11.6% in 3Q 2014. The moderation aside, the glut in space saw inner cities reflect vacancies of 16.2% (1Q 2015: 14.9%), versus a mean of 8.8% in decentralised nodes (1Q 2015: 9.7%). Industrial property similarly remains under pressure, due to subdued real sector activity. While IPF has achieved strong escalations in the sector, they are off a low base, and a substantive turnaround is not likely until stronger economic growth is realised. Strong revaluations and exit prices have nonetheless been realised in general, on the back of a cautious uptick and sound performance in pockets of the sector, which have repriced following the lead set by rates secured for new developments. Well positioned small to medium scale space continues to garner sound demand, in comparison to larger, purpose built space, which represents higher concentration risk and is much harder to re-tenant in the current environment.

Financial performance

Attached are the audited financials for the four years to F15, while brief commentary follows hereafter. Rental income (including straight line revenue adjustments) rose by 50% to R846m in F15, reflecting uplift from properties that transferred late into F14 and in 1H F15. Fairly strong throughput is expected into 1H F16 from properties that transferred in 2H F15 (R1.1bn in value), even before further acquisitions are taken into account. The base portfolio achieved growth of 9.4% in F15 (F14: 5.5%; c.8% before vacancies), on the back of robust letting activity and above-inflation escalations across all sectors. IPF achieved a retention rate of 79% in F15, while rental rates on newly let space continued to trend upward. The retention rate is shown before the re-letting of space previously occupied by Ellerines (c.8% of relet space, or 1% of total GLA). By FYE15, 97% of this space had been relet, with minimal impact on revenue.

Table 10: Portfolio statistics	F13	F14	F15
Weighted avg gross rental (Rand/m²)*			
Industrial	35	39	88
Retail	91	83	80
Office	113	137	120
New rental (Rand/m²)°			
Industrial	32	38	37
Retail	126	151	161
Office	--	--	139
Cost: income (%)	27.5	30.1	28.2
Industrial	28.0	30.2	26.2
Retail	33.3	34.7	34.8
Office	23.8	23.9	22.0
In-force escalations (%)	8.4	8.1	8.0
Letting-escalations (%)	8.9	8.5	8.4

*Gross rentals include rental income, operating cost and rates recoveries, and exclude parking income, utilities and any other recoveries.

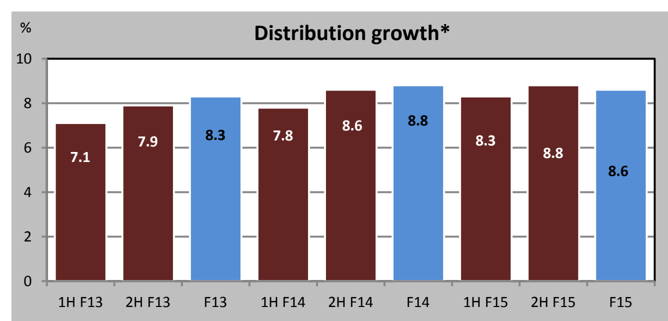
°Rates on newly let space are in comparison to expiry rentals of R38/m², R146/m² and R134/m² with respect to industrial, retail and office space respectively.

In comparison to the 39% uplift in revenue before non-cash adjustments, net property costs rose by 33% to R121m, largely reflecting the impact of asset transfers Having nearly doubled in the prior year on the back of more aggressive acquisitive activity, electricity costs rose by 29% to R91m in F15. Together with water and municipal costs, these are largely recovered from IPF's tenants, with strong recovery rates evidenced across the portfolio. Due to continued cost discipline, net property income rose by 53% to R725m in F15. The F15 cost to income ratio therefore moderated from the prior year high, reflecting rising rental rates, improved recoveries and cost rigour, especially in the industrial portfolio. Due to the stringent credit controls, arrears remained modest, at 0.6% of collectibles (F14: 0.3%). Despite a spike in F15, debtors impairments were also low, at 2.9% of property costs after utility recoveries (F14:

0.7%). Overall, operating income increased by 54% to R683m in F15, equating to a higher 80.7% of revenue (F14: 78.3%).

Property revaluation surpluses rose to R328m in F15 (F14: R187m), bringing the cumulative gains over the review period to R745m. Taking into account a R17m devaluation in the IAPF investment and an R18m fair value loss on derivatives, unrealised gains registered at R293m in F15 (F14: R212m). Note is taken of the set-off related to linked debentures, which curtailed fair value gains prior to the capital conversion. With respect to the IAPF interest, IPF has entered into forwards to hedge its foreign currency cash flows.

With the cost of funding remaining static at 8.5%, the rise in gross interest to R137m in F15 (F14: R57m) was mainly due to the higher debt draw down. In contrast, the F14 debt uplift was mostly incurred in the second half, tempering the annual interest cost. With interest income moderating slightly to R10m, the net finance cost rose by a similar quantum to the gross charge, to R127m (F14: R47m). The sharp increase in the finance charge was largely anticipated, as gearing was expected to rise from negligible historic levels. Despite having decreased to 5.4x in F15 (F14: 9.5x) interest cover is well above covenants and GCR's 2.5x benchmark for 'A' rated REITs. A reduced 83% of IPF's interest was hedged at FYE15, from 110%, in a bid to better manage the all-in cost of funding without unduly elevating risk. This remains above the 75% internal minimum, and is still considered prudent given the upward interest rate cycle. Overall, F15 profit rose by 75% to R885m. The distribution trajectory depicts the sound uplift achieved YoY since listing.



*F15 distributions have been stripped of the effect of IAPF's antecedent dividend.

Cash generation has remained sound, with uplift from new acquisitions bolstered by the performance of the base portfolio. As collections are closely controlled, working capital movements are usually low. The R45m release reported in F15 was therefore an outlier, derived from a R55m increase in accruals and tenant deposits (which offset a R10m debtors absorption). The much higher interest outlay absorbed 19% of cash generated (F14: 9%), although its impact on cash flows was partly offset by the working capital release. The operating cash flow therefore rose by 43% to R504m in F15, of which 84% was distributed to shareholders (F14: 98%). After the R426m dividend paid out to shareholders in F15 (F14: R345m), a modest R78m was retained (F14: R8m). IPF spent R1.6bn on new properties in F15 (F14: R973m; F13: R1.7bn), raising the total outlay for the four years to March 2015 to R6.3bn. The cumulative spend on IAPF shares, split over two years, amounted to R458m. F15 investments were funded by R1bn in equity (of which R457m was in raised cash) and R1.3bn in new debt. Capex rose to R82m in F15 (F14: R61m), and was mostly spent on retail enhancements (mainly Dihlabeng and Balfour). Sales proceeds fell to R12m in F15 (F14: R51m; F13: R241m), and while disposals are expected to rise, they are likely to make a modest contribution to future cash flows. Although cash closed at atypical highs in F13 and F14, due to balances held for imminent property transfers, it registered at a relatively normalised R61m at FYE15.

Funding and liquidity profile

IPF has been able to garner strong institutional support for its share and debt issues over the review period. As of July 2015, it had raised R5.8bn from shareholders since listing (of which R4.4bn was realised in cash). The most recent capital raising exercises included the issue of R1bn in shares in F15, and reinvestment of R137m in 2H F15 dividends. As such, equity has risen substantially from R1.7bn at listing to R6.6bn at FYE15 (FYE14: R5.1bn). Note is taken of the impact of the conversion to an all-share structure, which saw the capitalisation of the linked debenture liability from F14. Equity has also been enhanced by a modest cumulative valuation surplus on the properties, which mainly arose from enhancements and improved letting activity.

Table 11: Debt profile (R'm)	Facility	Drawn FYE15°	Drawn FYE14	Expiry	Rate
DMTN-secured					
IPF01		134	134	Apr-15	JIBAR+140 b.p.
IPF02		40	40	Apr-16	JIBAR+155 b.p.
IPF03		50	50	Apr-17	JIBAR+165 b.p.
IPF06		226	226	Apr-17	Fixed: 8.8%
DMTN-unsecured					
CP		200	-	Apr-15	JIBAR+38 b.p.
IPF07		150	-	Jun-17	JIBAR+140 b.p.
IPF08		50	-	Jun-18	JIBAR+158 b.p.
IPF09		250	-	Jun-19	JIBAR+170 b.p.
IPF10		85	-	Oct-16	JIBAR+135 b.p.
IPF11		85	-	Oct-18	JIBAR+173 b.p.
Nedbank term loan*	250	200	250	Oct-18	JIBAR+170 b.p.
Standard Bank term loan*	250	225	250	Oct-16	JIBAR+150 b.p.
Investec bridge/GB facilities	500	-	80	Nov-15	JIBAR+225 b.p.
Nedbank term loan	200	200	-	Oct-19	JIBAR+175 b.p.
Standard Bank term loan	200	150	-	Aug-17	JIBAR+155 b.p.
Investec development loan	100	14	-	Aug-20	JIBAR+190 b.p.
Amortised fees		(7)	(5)		
Total		**2,052**	**1,025**		

°The debt maturity profile at FYE15 was stable at 2.8 years. Swap expiries had declined to 3.8 years, from 4.3 years previously, in line with the reduced hedges.
*Secured. The remainder of the bank facilities are unsecured.

With equity being the main source of funding for IPF's acquisitions, debt has been kept low over the review period. In F15, the REIT raised R1.3bn in new debt:

- R500m in unsecured bank facilities, at an average weighted margin of 170b.p. over the 3M JIBAR. The mean tenor on the facilities is 4.4 years. Post year end, management secured a five year, unsecured facility with Nedbank, at the 3M JIBAR+175b.p.
- Part of the facilities secured/retained included a six-year development loan from Investec, meant to be used for property enhancements. The legacy R500m facility from Investec has been retained, albeit now in the form of a R200m bridge and a R300m general banking facility. The latter credit line is unsecured and does not incur commitment fees. The facilities give added comfort with respect to coverage of CP issues and general liquidity, given its linkages with Investec counterparties. These transactions are nonetheless

conducted at arms' length, and the group does not guarantee IPF's liabilities.

- R620m in unsecured bonds at an average margin of 157b.p. over the 3M JIBAR (with a mean maturity of 3.8 years) and R200m in secured CP. The CP has since been rolled twice, and now matures in October 2016. Tranche IPF01 was also refinanced through the April 2015 issue of IPF12 (R100m, at JIBAR+150b.p. maturing April 2018) and R34m in cash.

Due to the more active utilisation of the R3bn DMTN programme, bank debt comprised a much lower 38% of total borrowings at FYE15, from 56% previously. IPF's senior secured notes (rated $AA_{(ZA)}$ by GCR) are secured by assets that had a combined value of R1bn at FYE15. At April 2015 (when IPF12 was issued), this translated to collateralisation of 2.3x. With the R500m in new bank debt secured by properties worth R1.3bn, a lower 26% of IPF's investments were encumbered at FYE15 (FYE14: 30%). The significantly lower encumbrances in comparison to most REITs are positively considered with respect to the ratings, as they speak to IPF's ability to comfortably raise capital or improve liquidity by pledging more assets as collateral for credit lines/capital market transactions. The REIT is also better positioned to sell some of its properties and to free up underutilised capital. While emphasis is usually placed on unutilised facilities, GCR has placed particular focus on IPF's banking relationships, given the scale and timing of the Zenprop acquisition. In this regard, the REIT has shown the ability to mobilise funds from its bankers/capital markets within a fairly short time frame without unduly elevating its cost of funding.

Despite the aforementioned increase in debt to a high of R2.1bn (FYE14: R1bn), the net LTV of 24% (FYE14: 11%), remained well below GCR's 40% benchmark for 'A' rated REITs. While debt is meant to rise by over R3.5bn due to the Zenprop acquisition, the equity raised to fund this and the Griffin investment will see the LTV capped at a moderate 35%, even if other acquisitive opportunities materialise. Notwithstanding the earnings drag related to certain large assets purchased during the year, net debt to EBITDA remains amongst the lowest in the listed REIT space, at 292% (FYE14: 150%). This is largely due to the staggered acquisitions, and strong cash flows from acquired properties. Debt to EBITDA is not projected to exceed the 400% mark in the medium term, although it may spike intermittently.

Outlook

With respect to the base portfolio, management expects distribution growth to remain in line with historical trends, driven by the sound performance of underlying properties. The strong letting activity seen in F14 and F15 on the original Investec portfolio is expected to continue into F16, as around 7% of GLA has leases coming up for renewal or reletting. The environment, however, remains constrained, as tenants across all sectors are faced with rising utility costs and higher assessment rates. This is likely to place pressure on rental rates, although comfort in respect of cash flow predictability is taken from management's proven ability to retain tenants across the various sectors. GCR expects IPF's management to continue to show strong execution in respect of the delineated strategy. In this regard, its ability to sustain high quality cash flows in a harsh operating climate would place upward pressure on the Issuer ratings.

To date, the property portfolio has performed robustly, supporting an operating margin well above the 60% benchmark for highly rated funds. The Zenprop and Griffin portfolios are expected to enhance performance, as they reflect long leases, negligible vacancies and sound rental rates on well-positioned properties. Income protection in the medium term also derives from rental guarantees upon the expiry of certain leases. Despite the dilution seen in recent years, single tenanted properties underpin the atypically low cost structure. They also anchor IPF's high tenant retentions and usually return positive reversions, as clients come to strongly identify with the properties. As the loss of a tenant from a single-tenanted building could drive up vacancies, triple net leases are restricted to high quality tenants that are strictly vetted and have a long standing relationship with the manager or other Investec entities. Although exhaustive due diligence processes on any possible acquisitions draw out the acquisition process, they mitigate financial risk, and therefore bode positively.

IPF has sustained robust credit protection factors in the years under review, relying on consistent shareholder support to ensure low transactional LTVs. The marked elevation in debt due to the Zenprop acquisition has also been taken into account in according the ratings. GCR has reviewed the rationale behind the transaction, as well as progress made to date with respect to meeting the conditions precedent. In this respect, GCR is of the view that the increase in borrowings is in line with management's plans to utilise available capital more efficiently, and does not adversely impact the credit risk profile. With the LTV ratio to be managed around 35% going forward, credit protection factors are expected to remain aligned to the ratings accorded. GCR takes particular note of the very low asset encumbrances, which are considered in support of the REIT's liquidity. While encumbrances may increase in the short term, depending on what portion of Zenprop related debt will be secured, the conservative levels planned still imply strong recoveries for unsecured creditors. Interest cover is also projected to remain well above standing covenants over the tenor of IPF's senior secured notes.

Despite Investec having materially decreased its direct interest in the fund, IPF's performance is premised on synergies with the group. This has been lately affirmed by support of the Zenprop transaction through funding, waived/concessionary management fees, and liquidity (amongst other factors). As such, this inextricable relationship is still considered in support of the ratings.

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Investec Property Fund Limited

(Rand in millions except as noted)

Income Statement	Year end : March	2012	2013	2014	2015
Revenue		211.6	331.4	520.9	725.7
Revenue (incl. straight line rental revenue adjustment)		*242.1*	*375.2*	*566.0*	*846.4*
EBITDA		**191.7**	**294.6**	**443.3**	**683.2**
Operating income		191.7	294.6	443.3	683.2
Distributable earnings from associates and investments		0.0	0.0	7.4	33.0
Income from operations and investments		**191.7**	**294.6**	**450.7**	**716.1**
Net finance income (charges)		(3.0)	(14.0)	(46.6)	(127.0)
Fair value movements		(30.5)	(82.9)	211.6	293.1
Profit (loss) on property disposals and other		0.0	39.1	11.0	2.4
Distribution to linked debenture holders		(158.0)	(236.6)	(119.9)	0.0
NPBT		**0.2**	**0.2**	**506.7**	**884.7**
Taxation charge		(0.0)	(0.1)	0.0	0.0
NPAT		**0.1**	**0.2**	**506.7**	**884.7**
Cash Flow Statement					
Cash generated by operations		**161.2**	**248.7**	**397.6**	**567.2**
Utilised to increase working capital		12.3	(11.8)	(6.7)	45.9
Net interest paid		0.7	(9.2)	(37.7)	(108.7)
Taxation paid		(0.1)	(0.0)	(0.0)	0.0
Cash flow from operations		**174.2**	**227.8**	**353.1**	**504.4**
Maintenance capex		0.0	0.0	0.0	0.0
Discretionary cash flow from operations		174.2	227.8	353.1	**504.4**
Distributions to linked debenture holders/shareholders		(74.3)	(163.4)	(345.0)	(426.0)
Retained cash flow		**99.8**	**64.4**	**8.1**	**78.4**
Net expansionary capex		(1,926.2)	(1,726.2)	(1,033.5)	(1,671.4)
Investments and other		0.0	0.0	(235.5)	(222.2)
Proceeds on sale of assets/investments		0.0	240.6	51.4	36.0
Shares issued		1,700.0	1,496.4	594.0	456.7
Cash movement: (increase)/decrease		(4.6)	(394.2)	40.4	297.3
Borrowings: increase/(decrease)		130.9	319.1	575.0	1,025.1
Net increase/(decrease) in debt		**126.3**	**(75.1)**	**615.4**	**1,322.4**
Balance Sheet					
Ordinary shareholders interest		**1.7**	**3.2**	**5,112.6**	**6,615.8**
Outside shareholders interest		0.0	0.0	0.0	0.0
Linked debentures (capital)		1,836.4	3,940.0	0.0	0.0
Total shareholders' interest		**1,838.1**	**3,943.2**	**5,112.6**	**6,615.8**
Short term debt		130.9	0.0	80.0	334.0
Long term debt		0.0	450.0	944.9	1,718.1
Total interest-bearing debt		**130.9**	**450.0**	**1,024.9**	**2,052.1**
Linked debenture interest/dividend payable		83.8	164.2	0.0	0.0
Interest-free liabilities		29.3	82.0	415.8	166.6
Total liabilities		**2,082.0**	**4,639.3**	**6,553.3**	**8,834.5**
Fixed assets		0.0	0.0	0.0	0.0
Properties		2,065.4	4,187.0	5,824.8	**8,201.6**
Investments and advances		0.0	0.0	288.7	502.1
Cash and cash equivalent		4.6	398.7	358.3	61.0
Other assets		12.1	53.6	81.5	69.8
Total assets		**2,082.0**	**4,639.3**	**6,553.3**	**8,834.5**
Ratios					
Cash flow:					
Operating cash flow: total debt (%)		133.1	50.6	34.5	24.6
Discretionary cash flow: net debt (%)		137.9	444.3	53.0	25.3
Profitability:					
Rental income growth (%)		n.a	55.0	50.9	49.5
EBITDA: revenues (%)*		79.2	78.5	78.3	80.7
Operating profit margin (%)*		79.2	78.5	78.3	80.7
EBITDA: average total assets (%)		10.2	9.3	8.5	9.1
ROaE (%)		8.9	8.2	13.8	15.1
Coverage:					
Operating income: gross interest (x)		31.8	7.5	7.7	5.0
Operating income: net interest (x)		63.5	21.0	9.5	5.4
Activity and liquidity:					
Days receivable outstanding (days)*		9.1	31.9	42.4	31.2
Current ratio (:1)		0.1	1.9	0.9	0.3
Capitalisation:					
Total debt: equity (%)		7.1	11.4	20.0	31.0
Net debt: equity (%)		6.9	1.3	13.0	30.1
Total debt: EBITDA (%)		68.3	152.7	231.2	300.4
Net debt: EBITDA (%)		65.9	17.4	150.4	291.5
Loan to value:					
Total debt: properties (%)		6.3	10.7	17.6	25.0
Net debt: properties (%)		6.1	1.2	11.4	24.3
Total debt: properties & investments (%)		6.3	10.7	16.8	23.6
Net debt: properties & investments (%)		6.1	1.2	10.9	22.9

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

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

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.
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 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.
Commitment Fee	A fee paid by a borrower for a lender's commitment to make funds available when required.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
CC	Competition Commission, a regulatory body instituted under the Competition Act that has oversight of mergers and acquisitions, with a view to ensuring equity and efficiency in the various industries/sectors.
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.
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 Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
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. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity..
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.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
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.
Fix	The setting of a currency or commodity price for trade at a future date.
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.
Fixed Capital	Fixed capital is the part of a company's total capital that is invested in fixed assets such as land, buildings and equipment that remains on the balance sheet, usually for years, but for at least one accounting period.
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.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity’s reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
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	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	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.
JIBAR	The Johannesburg Interbank Agreed Rate, or JIBAR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments, 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	Johannesburg Stock Exchange.
leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
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.
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.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
NAV	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
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.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
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.
REIT	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.
REPO	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
REPO Rate	In South Africa the REPO rate refers to the rate at which the South African Reserve Bank lends money to banking institutions. The money is lent through a repurchase agreement.
Repurchase Agreement	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
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.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
SAPOA	South African Property Owners Association.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
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.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
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.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Unrealised Loss	The profit or loss that would be made if a position were to be liquidated.
WALE	Weighted average lease expiry.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.
Yield	Percentage return on an investment or security, usually calculated at an annual rate. Also an agricultural term describing output in terms of quantity of a crop.

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:

- 2015 audited financial statements (plus three years of comparative numbers);
- the May 2015 board pack;
- corporate governance and enterprise risk framework;
- profitability projections for 2016;
- SENS announcements and other information related to 2015 acquisitions, and
- 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.

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