GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Investec Property Fund Limited
R450m Senior Secured Notes

South Africa - Secured Bond Surveillance Report

20 January 2014

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

Key counterparties:

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

Summary of Transaction:

Asset class	Secured Notes
Rating Senior Secured Notes	'AA-$_{(ZA)}$'
Senior Secured Notes aggregate issuance amount	R450m
LT senior unsecured rating of the Issuer	'A-$_{(ZA)}$'/'Stable' Outlook
Status	Senior secured by real estate assets
OMV of properties	R967m at 30 Mar'13

Capital Structure of Senior Secured Notes at Closing:

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

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

Related research:

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

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Transaction Summary

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

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

Rating Rationale

- The high quality pool of real estate assets owned by IPF, evidences long term leases and low vacancy levels. This has ensured strong cash flows, underpinned by sound escalations and reversions. As such, margins remain robust and should support comfortable medium term debt serviceability
- Concentration risk has reduced as the fund has attained scale, with 46% of the portfolio's carrying value at 30 September 2013 derived from 10 properties (FYE13: 55%; FYE12: 75%). IPF's portfolio as at 31 October 2013 was predominately constituted by multi-tenanted properties (55%) as opposed to the single-tenanted properties dominance seen over the history of IPF's portfolio (FYE12: 42%). Additionally, the maintenance of a chiefly A-graded tenant profile (68%; as a percentage of revenue) has continued to mitigate counterparty risk within IPF's portfolio.
- Vacancy levels on IPF's entire portfolio was reported at a low 2.6% for the period ended 30 September 2013, well below the levels reported for the same period in F12 (3.2%). From a secured properties portfolio perspective an unchanged 0% vacancy level as at 30 September 2013 was reported.
- In regards to the properties held by the Security SPV, the market value of the properties rose by R86.3m to R967m as at the end of March 2013's valuation exercise. Disregarding the discontinuation of one tenants lease and the subsequent replacement of said tenant with a new tenant, at one property (4 Protea Place), IPF's secured portfolio tenancy and lease expiration profile has largely remained unchanged as at end October 2013, with the weighted average remaining lease term equating to around 6 ½ years (78 months).
- The Issuer and the Security SPV have continued to meet the covenants, relating to the Senior Secured Notes, being that of the maximum 50% LTV ratio covenant, an interest cover ratio covenant of no less than 2x which both apply to the Issuer and, in respect of the Security SPV, a 60% maximum LTV ratio.
- GCR reviewed the applicable insurance cover policies on the buildings held as security for the transaction and took comfort in regards to the adequate insurance cover taken.
- The rating of the Senior Secured Notes is derived by applying a notching up approach, starting from the long term senior unsecured corporate credit rating of the Issuer. Based on fundamentals and prospects of IPF, GCR has accorded a long term 'A-$_{(ZA)}$' long term national scale corporate credit rating with a 'Stable' outlook to the Issuer. A rating uplift of 3 national scale notches was deemed appropriate for this particular transaction, given the "*Excellent Recovery Prospects*" equating to a 'AA-$_{(ZA)}$' rating on the Transaction.
- GCR analysed the Transaction by applying its Criteria for Rating Property Funds and Global Structurally Enhanced Corporate Bonds Rating Criteria.

GLOBAL CREDIT RATING CO.

Introduction

The Senior Secured Notes were issued on 13 April 2012. The notes are listed on the Interest Rate Market of the JSE, Johannesburg. The proceeds of the issuance have been used by the Issuer to fund the acquisition of investment properties.

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

Covenant compliance

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

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

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

Covenants requirements as at 30 September 2013	Actual ratio
Issuer Interest Cover ratio ≥ 2.0x	9.7x[1]
Issuer LTV ratio ≤ 50%	10.1%[1]
SPV LTV ratio ≤ 60%	46.5%[2]

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

Rating Methodology of the Senior Secured Notes

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

Recovery rate calculations*	Rands
Principal amount outstanding upon default	450,000,000
Assumed missed interest upon default	14,236,675
Assumed missed interest to give time to realise recoveries	55,588,050
Aggregate exposure Senior Noteholders	**519,824,725**
Assumed recoveries on sale of properties	(448,580,000)
Assumed recoveries on rentals	(81,097,834)
Assumed sales and legal costs	26,914,800
Unsecured claim on Issuer	**17,061,691**
Assumed recovery on unsecured claim	0
Remaining claim	**17,061,691**
Overall estimated recovery rate	97%

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

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

Rating Considerations

Meaning of the Rating of the Senior Secured Notes

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

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

The rating of the Senior Secured Notes incorporate recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter, which is also an expression of expected loss, but refers to probability of default and an average historical loss given default for generalised senior unsecured debt).

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

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

The rating of the Senior Secured Notes will be reviewed at a minimum on an annual basis or as events warrant. GCR will perform regular surveillance on the Transaction. Surveillance reports will be made available to subscribers to GCR's information services

Rating Criteria Application

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

Other

Data Received from Arranger as at 13 January 2013

- Independent property valuations on all five properties (as at end March 2013).
- Performance data and performance forecasts on IPF's entire portfolio for the period 31 March 2013 to 30 September 2013.

- Management accounts for the properties secured relating to the period 31 March 2013 to 30 September 2013.
- Forecast income and expenses for the properties secured relating to the 2013 to 2018 financial years.
- Tenant lease schedules for the properties secured.
- Tenant gradings relating to the properties secured.
- Building gradings relating to the properties secured.
- Insurance policies relating to the properties secured.
- Letter confirming no properties (securing the noteholder obligations) have been dual ceded

Disclaimer

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

Appendix A: Rating Methodology of the Senior Secured Notes

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

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Remaining claim	**17,061,691**
Overall estimated recovery rate	**97%**

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

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 97% carries the qualification "*Excellent Recovery Prospects*". A 3 notch rating uplift on the ZAR currency national scale is deemed to be appropriate for the Transaction. Accordingly, the Senior Secured Notes *final, public* rating of 'AA-$_{(ZA)}$' has been affirmed.

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

1. Principal Amount Outstanding upon Default

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

Capital Structure of Senior Secured Notes

Stock code	Amount (Rands)	Coupon	Maturity date	Length of period till maturity	Interest payment frequency
IPF01	134,000,000	3M Jibar + 1.4%	13 April 2015	1 years 4 months	Quarterly
IPF02	40,000,000	3M Jibar + 1.55%	13 April 2016	2 years 4 months	Quarterly
IPF03	50,000,000	3M Jibar + 1.65%	13 April 2017	3 years 4 months	Quarterly
IPF06	226,000,000	8.80%	13 April 2017	3 years 4 months	Semi-annual
Subtotal	**450,000,000**				

2. Assumed Missed Interest Payments upon Default

GCR assumes that upon default the last quarterly coupon is not paid (in respect of the Senior Secured Notes issued under stock code IPF06, it is assumed the last semi-annual coupon is not paid). In addition, interest payments during the assumed recovery period (18 months) are sized. This equates to 6 quarterly coupon payments and 3 semi-annual coupon payments in respect of the Senior Secured Notes issued under stock code IPF06. GCR assumes an 18 month recovery period due the concentrated nature of the secured property portfolio towards single tenants and its concentration towards the office sector. As such, GCR assumes that such properties will take longer to dispose of compared to a well-diversified portfolio. For the Senior Secured Notes issued under stock code IPF01, GCR used the midpoint between the 1 and 2 years swap rate (5.88% as at 10 January 2013) plus the interest margin (1.40%) as the combined assumed interest rate (7.28% per annum). The 1 and 2 years swap rate midpoint instead of 3M Jibar is used because the weighted average life of the Senior Secured Notes is assumed to be 1.3 years, given the bullet nature. Similarly, for IPF02, GCR used the midpoint between the 2 and 3 years swap rate (6.40% as at 10 January 2013) plus the interest margin (1.55%) as the combined interest rate (7.95% per annum). For IPF03, GCR used the midpoint between the 3 and 4 years swap rate (6.83% as at 10 January 2013) plus the interest margin (1.65%) as the combined interest rate (8.48% per annum). For IPF06, the interest rate as at closing date (8.80% per annum) is utilised as this interest rate is a fixed until the legal maturity date. GCR understands that no default interest is applicable after an Event of Default.

3. Assumed Recoveries on Sale of Properties

GCR assumes that 18 months after default of the Senior Secured Notes, all properties are eventually sold in a single circumstance. GCR used the independent market valuations of the properties (per end March 2013) as the starting point for the analysis to derive the stressed sales value for the portfolio of secured properties. In deriving the relevant haircut to be applied to each property, GCR looked at 3 components, namely i) the length of each tenant's lease; ii) the underlying credit quality of each tenant and iii) the grading of each building as provided by the Issuer. In the event a property met all 3 criteria (i.e. the lease is longer than the maturity date of the Senior Secured Notes, the tenant has an underlying credit quality at least commensurate with the rating of the Senior Secured Notes and if the building has been accorded an 'A' grade by the Issuer), a 45% haircut was applied to the market valuation of the respective property. In the event a property meets only 1 or 2 of the 3 criteria, a 65% haircut was applied. Please refer to the table below for an overview:

Property	Haircut Applied	Lease Maturity	Tenant Credit Quality	Building Grade
Investec Offices Durban	45%	Long	Rated	A
Woolworths House	45%	Long	Rated	A
Innovation Group	65%	Long	Unrated	B
Makro Montague Gardens	65%	Medium	Rated	B
4 Protea Place	**65%**	**Medium**	**Unrated**	**A**
Apostolo Pavlo Trading		Medium	Unrated	
Group I Tenants Association		Medium	Unrated	
Maisels Group		Medium	Unrated	
Stansher Developments (Pty) Ltd		Medium	Unrated	

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

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

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

GCR was provided with per property income and expense information for the 7 months to end October 2013. This information was used as a basis for estimating rental cash flows during the 18 month enforcement period.

Conservatively, no rental income is assumed to be generated over the enforcement period from the Innovation Group and 4 Protea Place buildings. This is because the underlying credit quality of the tenants is unknown (unrated entities) and the number of tenants is concentrated. For the remaining tenants comprising the other 3 properties, GCR assumes that 2% of rental amounts owing by these tenants over the enforcement period will remain in arrears.

5. Assumed Sales and Legal Costs

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

6. Remaining Claim

Please note that the assumptions, haircuts and stresses applied by the GCR (discussed below) relating to the secured properties (and thus the calculation of the potential recoveries and the remaining claim) in a stressed situation are conservative in nature, and are deemed to be appropriate in the context of the relevant rating scenario.

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

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

Property	Sector	Building Grading[2]	Market valuations as at 1 April 2011 (Rands)	Market valuations as at 30 March 2013 (Rands)
Investec Offices Durban	Office	A	215,000,000	232,000,000
Woolworths House[1]	Office	A	288,000,000	319,000,000
Innovation Group	Office	B	160,000,000	190,000,000
4 Protea Place	Office	A	115,000,000	142,800,000
Makro Montague Gardens	Industrial	B	80,000,000	83,000,000
Total			**858,000,000**	**966,800,000**

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

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

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

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SALIENT POINTS OF ACCORDED RATINGS

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

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

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

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

The information received from the Arranger and other reliable third parties to accord the credit ratings included the latest Issuer's audited annual financial statements for the year ending March 2013; an overview of the Issuer's property portfolio as at 30 September 2013; management accounts for the period ended 31 October 2013; a performance forecast for the period beginning March 2013 and ending March 2018; the insurance policies covering the ceded properties; the applicable Open Market Valuation Reports; and the relevant transaction documents together with the relevant legal and tax opinions.