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Accelerate Property Fund Limited

South Africa Corporate Analysis **February 2016**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	BBB+ $_{(ZA)}$	Stable	February 2017
Short term	National	A2 $_{(ZA)}$		

Financial data:

(USD'm Comparative)

	31/03/14#	31/03/15
R/USD (avg)	10.65	11.06
R/USD (close)	11.26	12.09
Total assets	574.8	589.9
Total debt	212.1	198.0
Total capital	335.0	380.8
Cash & equiv.	5.1	4.9
Revenue	20.8	67.7
EBITDA	13.8	45.9
NPAT	51.9	67.0
Op. cash flow	6.0	21.4
Market cap**	R4.7bn/USD307m	
Market share		n.a

\# 31/03/14 results relate to the 110 day period post listing

** As at 19/02/2016 @ R15.41/USD

Rating history:

Initial Rating (February 2014)
Long term: BBB+$_{(ZA)}$
Short term: A2$_{(ZA)}$
Outlook: Stable

Last Rating (March 2015)
Long term: BBB+$_{(ZA)}$
Short term: A2$_{(ZA)}$
Outlook: Stable

Related methodologies/research:

Criteria for rating corporate entities, updated February 2015

Criteria for rating property funds, updated April 2015

Accelerate Property Fund Limited ("Accelerate" or "the REIT") rating reports (2014-2015)

Accelerate Senior Secured Notes: New Issuance/Tap Issuance rating reports (2014-2015)

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Summary rating rationale

- The rating is supported by Accelerate's high quality, well positioned retail assets (accounting for 69% of the fund property value at 1H F16), complemented by an increasing contingent of high-end office properties. This has seen the value of the property portfolio increase by 1.4x since listing to R7.6bn at 1H F16.
- While Accelerate is geographically concentrated in Gauteng (particularly the strategic Fourways node), the portfolio is backed by good-quality tenants and improving vacancies, largely borne by the retail sector. In this regard, core vacancies reduced to 5.5% at 1H F16 (FYE15: 7.5%), whist the lease maturity profile has also lengthened.
- Despite the weaker outlook for the retail sector, the REIT is expected to maintain sound income growth over the rating horizon, underpinned by ongoing value enhancing acquisitions and above inflation escalations on in-force contracts. Earnings also remain resilient, with the operating margin reported at 68% in 1H F16 (FYE15: 66%).
- Accelerate reported sound net interest cover, which registered around the 3x mark in 1H F16. The REIT also remains relatively conservative in respect of interest-rate exposure, which should provide a level of relief to interest serviceability amidst the current upward rate cycle.
- Portfolio growth has been funded by a mix of debt and equity, with debt having increased by R604m to R3bn over the 18-months to 1H F16. Thus, the fund's LTV has risen from 35% at FYE15 to 39% at 1H F16. Recent debt funded acquisitions are likely to see the loan to value ratio exceed management's 40% limit over the short-term. Similarly, with net debt to EBITDA registering at an annualised 511% at 1H F16 (FYE15: 510%), this exceeds GCR's limit for 'A' rated property companies. As such, management has indicated that they may look to dispose of a limited number of non-core properties to decrease gearing. In the absence of this, further acquisitions will likely require a higher portion of equity funding.
- To date, the fund has demonstrated good access to capital in both the equity and debt markets. Unutilised banking facilities remain limited, although they are sufficient to cover ongoing capex expenses, whilst short term debt maturities are small.
- Access to a largely captive deal pipeline of properties through strategic legacy relations (including the redevelopment of the super-regional Fourways mall expected in 2018), bodes well for future asset growth and potential diversification. Accelerate's credit profile also benefits from modest development risk.

Factors that could trigger a rating action may include

Positive change: Upward rating movement would be based on Accelerate solidifying its gearing metrics within the 'A' band rating range. Further, the fund would need to continue to exhibit growing revenues, stable operating margins and solid interest cover levels.

Negative change: A ratings downgrade could be prompted by a more aggressive risk appetite following debt-funded acquisitions, resulting in elevated leverage and LTV ratios for a sustained period. This could also stem from a weakening trend in profitability levels, owing to the tougher economic climate, and/or any pressure on the REIT's liquidity position.

Business profile and strategic developments

Accelerate listed on the JSE in December 2013, with 51 properties in its portfolio at a total value of R5.5bn. Despite the fund's short track record, its underlying investment properties are all well-established. The properties were sold into the fund with existing leases and key tenants intact, while property management structures were largely retained. In this regard, property management is undertaken by related parties (linked through common shareholders and directors), namely Fourways Precinct Limited ("FPL") and Accelerate Property Management Company (Pty) Limited ("APMC"). Post FYE15, FPL now directly manages 9 properties in the portfolio (all Fourways based), which were previously subcontracted to JHI Properties (Pty) Ltd. APMC manages the remaining properties, with the 11 Cape Town properties subcontracted to Baker Street Properties. Property management by these parties is undertaken at arms-length and in accordance with service level agreements, entitling them to 1% of gross rental income.

Accelerate's business model revolves around direct investments in predominately retail property assets in South Africa. To this end, the fund targets a sector split of 70% retail (including specialised retail); 15% office and 15% industrial. At 1H F16, 30 of Accelerate's 57 property assets under management were retail based (representing close to 70% of the fund value). Furthermore, the REIT's focus is to consolidate its position within certain strategic locations, one being the Fourways area in Gauteng. Of the 18 shopping centres included in the fund, 6 are located in Fourways accounting for more than half of the total portfolio by both value and rental income. These are, however, considered to be high quality properties, given that they are well positioned to service a large and mostly affluent catchment area. Dominance in this strategic node will be further enhanced by the planned refurbishment of the fund's flagship retail asset (Fourways Mall) in order to meet increasing tenant demand (including large international clients) and to ensure the properties remain relevant to the market. In this regard, a 90,000m^2 extension has gotten underway, which will result in the creation of a super-regional shopping centre. In view of this, the surrounding road infrastructure is also expected to be upgraded to alleviate traffic congestion. Development in this regard commenced in 1H F16, with the project anticipated to be completed by mid-2018. Critically, the entire development is being undertaken by FPL, on its own balance sheet. Thus, Accelerate does not have any of the development risk, but does have right to acquire up to half of the combined letting enterprise at completion for a predetermined price. Further, while limited disruption to the existing mall is anticipated during construction, FPL has provided a minimum income guarantee of R163.5m escalating at 6% per annum from the date of listing to Accelerate (secured by cash and shares) until the centre's completion. The REIT's limited development appetite is considered a rating positive.

Strategic links and synergies with the primary shareholder (combined with their well-entrenched networks within the industry) is viewed a key competitive advantage. This is expected to continue to provide the fund with a relatively captive pipeline for future asset growth and potential diversification. To this end, Accelerate has a pre-emptive right to purchase most letting properties valued above R100m that are for sale from the Georgiou family's private property portfolio. These include rights to the Parow shopping centre in the Western Cape, as well as an option over 50% of the Loch Logan shopping centre in Bloemfontein.

Corporate governance and stakeholders

As a listed entity, Accelerate is required to comply with the JSE Listings requirements, and the King III code of corporate governance. Regarding the latter, the fund is compliant with the code in all material respects. To ensure the board's autonomy, Accelerate maintains a majority of independent directors. The board's mandate is carried out through five committees, which are all chaired by non-executive directors.

Table 1: Corporate governance summary	
Directors - Executive	4
- non-executive	6 Independent
Frequency of meetings	The board meets at least quarterly. *Ad hoc* meetings are held whenever necessary.
Separation of the chairman	Chairman is separate from the CEO, and is independent.
Board committees (5)	Investment; Audit; Remuneration; Social & Ethics; and Nominations.
Internal control/compliance	Internal Audit is conducted by an outside party, LM Consulting, which reports to the Audit committee.
External auditors	Ernst & Young Inc. An unqualified, clean audit opinion was issued for F15.

In terms of shareholding, 63% of the fund's shares are publically held, with the single largest stake (37%) indirectly controlled by Michael Georgiou (Accelerate's CEO) through shareholdings of FPL and the Michael Family Trust. Other large stakeholders include Coronation, Government Employees Pension Fund and Stanlib.

Investment portfolio

Accelerate's total asset value stood at R6.8bn at FYE15, from R6.2bn at FYE14, primarily on the back of fair value gains, and to a lesser extent from acquisitions, and refurbishments. Acquisitions related to the take-on of a Checkers distribution centre in the Western Cape (for R147m; equity financed), while the Willows Shopping Centre in Pretoria East (viewed as non-core) was sold, with R12m gain realised on disposal. Further, Accelerate spent a combined R85m on refurbishments and extensions on two existing properties.

For the interim period F16, notable acquisitions in the office sector saw the value of Accelerate's property portfolio rise further to R7.6bn. To this end, the fund acquired 6 A-grade office properties leased to KPMG Inc and KPMG Services Limited for a total consideration of R880m (fully debt funded). These properties provide a combined GLA of 32,202m^2, with a

15-year triple net lease (yearly base rental totalling R64.5m) and escalations of 8% p.a. for the first 12 years. Concurrently, Millhouse (a small office building in Cape Town) was sold for R28m.

Table 2: Portfolio operating statistics	FYE14		FYE15		1H F16	
	Metric	%	Metric	%	Metric	%
No of properties	**52**	**100.0**	**52**	**100.0**	**57**	**100.0**
Retail	31	59.6	30	57.7	30	52.6
Office	15	28.8	15	28.8	20	35.1
Industrial	3	5.8	4	7.7	4	7.0
Specialised	3	5.8	3	5.8	3	5.3
GLA (m^2)	**450,240**	**100.0**	**467,208**	**100.0**	**488,040**	**100.0**
Retail	303,319	67.4	294,152	63.0	294,152	60.3
Office	97,825	21.7	97,825	20.9	118,657	24.3
Industrial	31,721	7.0	57,856	12.4	57,856	11.9
Specialised	17,375	3.9	17,375	3.7	17,375	3.6
Vacancies*(%)	**10.0**	-	**8.8**	-	**6.7**	-
Retail	9.0	-	10.1	-	6.4	-
Office	18.1	-	11.7	-	11.1	-
Industrial	0.0	-	0.0	-	0.0	-
Specialised	0.0	-	0.0	-	0.0	-
Revenue (R'm)	**221.3**	**100.0**	**748.8**	**100.0**	**455.7**	**100.0**
Retail	175.3	79.2	586.4	78.3	286.3	62.8
Office	34.2	15.5	117.2	15.6	137.1	30.1
Industrial	4.8	2.2	20.5	2.7	21.2	4.7
Specialised	7.0	3.2	24.7	3.3	11.2	2.5
Asset value^ (R'm)	**6,147.2**	**100.0**	**6,766.3**	**100.0**	**7,649.8**	**100.0**
Retail	4,971.9	80.9	5,276.6	78.0	5,276.6	69.0
Office	796.2	13.0	911.8	13.5	1,795.3	23.5
Industrial	111.7	1.8	281.6	4.2	281.6	3.7
Specialised	267.4	4.3	296.3	4.4	296.3	3.9

*By GLA and includes structural vacancies.
^Excludes straight-line adjustments.

Post 1H F16, the Noor transaction, relating to the transfer of 6 properties, was finalised in December 2015. The acquisition has strengthened Accelerate's position in the Charles Crescent node. Given its proximity to Sandton it is one of the REIT's strategic nodes and offers long-term development potential. The purchase of these properties was settled partly in cash and partly through a share issue to the vendor. All properties acquired have intact and long dated leases that expire between March 2019 and January 2023.[1]

Table 3: Acquisitions post 1H F16	Cost (R'm)	Type	GLA (m^2)	Annual net income (R'm)
Noor portfolio (6)	**468**	**Various**	**51,557**	**42.9**
Ellerines	150	Office	9,074	13.7
Accentuate	87	Industrial	12,000	8.65
MB Technologies	97	Ware./Office	6,000	8.24
Edgars	45	Office	4,500	3.85
Bryanston Lodge	32	Residential	12,000	2.63
Pick n Pay	57	Warehouse	7,983	5.78
Portside (1)	**840**	**Office**	**27,900**	**n.a.**
Total (7)	**R1,308**	--	**79,475**	-

Accelerate also announced the planned acquisition of roughly 50% (floors 9-19; GLA of 27,900m^2) of the Portside office building located in the Cape Town CBD, which houses FirstRand's regional head office. The purchase consideration will be approximately R840m (to be fully debt funded by RMB), with the transaction expected to close before FYE16. While some of this space is currently vacant, a rental guarantee of R120m from the seller (Old Mutual Life Assurance Company; "OMLACSA") can be drawn upon over 5 years, providing an estimated initial minimum yield of 7.5% (escalating at 7% per annum). In addition to this, OMLACSA is required to contribute around R35m towards tenant installations, over and above the existing structures in place.

Notwithstanding the abovementioned acquisitions (culminating in the office portfolio exceeding management's targeted range), the retail sector will remain the primary focus for investment activity and portfolio growth. As at 1H F16, the retail component (including specialised retail) accounted for 64% of GLA and 66% of revenues. In terms of geographic spread, the fund displays notable concentration to Gauteng, representing 77% of lettable area, with the Western Cape at 18% (albeit anticipated to increase on the back of the Portside purchase). This follows largely from the fund's strategic focus on certain nodes, namely the Fourways and to a lesser extent the Kramerville area in Johannesburg, representing 33% and 8% of GLA respectively. More specifically, the top five properties by value (representing a combined 51% of the total portfolio value) are all located in the Fourways area, and account for 30% of GLA and 43% of revenue. Concentration risk is, however, mitigated by the competitive advantage provided by Accelerate's strong positioning in this node, allowing it to capitalise on good trading densities in the catchment area, driven by the high LSM demographic profile and ongoing residential expansion. This should allow the fund to remain defensive in the face of weakening economic fundamentals.

Table 4: Top 5 properties at 1H F16	Value		GLA		Type
	R'm	%	m^2	%	
Fourways Mall	2,273.8	29.7	61,480	12.6	Sh. Centre
Cedar Square	883.4	11.5	46,025	9.4	Sh. Centre
Fourways View	319.0	4.2	12,962	2.7	Sh. Centre
The Buzz	274.0	3.6	14,291	2.9	Sh. Centre
BMW Fourways	181.1	2.4	13,098	2.7	Motor dealership
Total	**3,931.3**	**51.4**	**147.856**	**30.3**	-

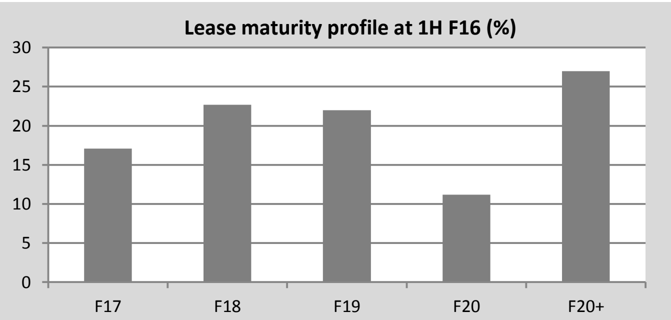
Vacancies and tenants

A conditional purchase agreement ("the agterskot consideration") is attached to certain properties that were acquired in the initial portfolio at listing. This contract covered 20,203m^2 of vacant space that entitles the original seller to deferred share payments once the space is let. The onus is on the seller to find suitable tenants within the agreed three year timeframe. Only 6,448m^2 of vacant space currently remains, with shares valued at R164m having resultantly been issued thus far. In addition, a vacancy guarantee of R10.7m (escalating at 8% from listing) is in place with FPL that covers vacant retail GLA of 6,067m^2 for the Fourways properties for a period of three years after listing. Of this guaranteed lettable area, 6,014m^2 remains covered by the vacancy guarantee at 1H F16 and relates to structural vacancies.

[1] One of these properties is tenanted by Ellerines, and as such, the property vendor has provided a two-year head lease matching that of the underlying Ellerines lease, and has pledged R30m of Accelerate shares to secure this obligation.

Including the impact of the vacancy guarantee, Accelerate's overall vacancy rate reduced to 6.7% at 1H F16, from 8.8% at FYE15. Much of the improvement was derived from the retail sector where vacancies reduced from 10% at FYE15 to 6.4% at 1H F16, owing to active portfolio management. Net of structural vacancies (for redevelopment such as extensions), the retail vacancy rate reduces further to 4.4% (FYE15: 8.1%). Office vacancies also improved slightly to 11% at 1H F16 (FYE15: 11.7%), aligning with industry averages.

In view of its focus on the retail sector, the fund is characterised largely by multi-tenanted properties (72% of the portfolio at 1H F16). The tenant base is diversified (around 1,599 lease contracts), with most tenants (barring KPMG) representing no more than 2% of total gross rental income. The tenant profile remains of high quality, with A-grade tenants (large national and listed retailers) holding 60% of lettable space and contributing 57% of rental income. B-grade tenants contributed 18% of rental revenue and occupied 16% of GLA at 1H F16, with the balance derived from C-grade tenants. Tenant retention remained strong at 90% at 1H F16, with the overall reversion rate equating to 0.3% of total rentals. The strong resilience of the retail portfolio (supported by the anchor tenants) is further evidenced by sound escalations of 8.8% in 1H F16 (FYE15: 8.6%), which is expected to provide rental growth and inflation protection. The weighted average escalation of in-force contracts was good at 8.5% for 1H F16.



The lease expiry profile is well-staggered at 1H F16. Notably, 27% of the fund's leases (by revenue) are set to expire post F20, largely attributable to the introduction of the long-let KPMG properties. As such, the fund's weighted average lease period has risen to 4.56 years (FYE15: 2.87 years). Large (as well as single tenant) contracts generally exhibit longer expiries, ranging between 4 to 10 years.

Financial performance

A synopsis of Accelerate's financial history is appended to this report, and brief commentary follows. F15 depicts the results for the fund's first full financial year, with F14 results reflecting the period from listing date (12 December 2013) to 31 March 2014. The results for the 1H F16 period are also included.

With F15 representing the first full operating year, Accelerate reported rental income of R700m, in line with forecast. Growth in rentals for the half year to September F16 remained sound, registering at an annualised 19%. This was as a result of the contribution from KPMG, which together with the consolidation of the Noor transaction is expected to continue to positively impact results for the second half of F16.

Property related expenses were well managed, resulting in a property expense ratio of 29% in F15 (1H F16: 28%). Electricity accounts for the largest component of property costs (at 32%) followed by rates and taxes. While administered costs are largely clawed back from tenants, Accelerate has to cover costs upfront, which induces a level of risk with respect to the timing of respective collections. In addition, sharp tariff hikes over recent years, which are likely to remain ongoing may increase the burden on tenants all-in cost of occupancy and therefore limit potential escalations. Operating profit amounted to R507m in F15, translating into a sound margin of 66%. The operating margin improved further to 68% in 1H F16, which remains well above GCR's 60% threshold for highly rated REITs.

Table 5: Financial performance (R'm)	**F15**		**1H F16**
	Actual	**Budget***	
Rental revenue	699.7	697.7	417.5
Straight-line rental adj.	49.1	60.6	38.2
Revenue	**748.8**	**758.4**	**455.7**
Property exp.	(205.8)	(224.5)	(115.0)
Total property income	**543.1**	**533.9**	**340.7**
Other operating exp.	(36.3)	(23.0)	(20.9)
Other income	0.5	0.0	0.8
Operating income	**507.2**	**510.9**	**320.7**
Net finance charges	(159.3)	(160.6)	(107.1)
Hedges	(60.6)	0.0	(1.9)
Fair value movements	441.6	0.0	0.0
Realised gains	12.1	0.0	0.0
NPAT	**741.0**	**350.3**	**211.6**
Key metrics			
Revenue growth (%)	-	-	19.3
Property expense ratio (%)	29.4	32.2	27.6
Operating margin (%)	65.5	64.5	67.6
Net interest cover (x)	3.2	3.2	3.0

*As provided in the pre-listing information.

Net interest paid equated to R160m in F15 and rose further to R107m in 1H F16 (1H F15: R82m) on the back of higher borrowings. Accelerate utilises swaps to hedge a sizeable portion of its interest rate risk. The hedged position is actively managed, taking cognisance of interest rate expectations and the cost of hedging. With prevailing interest rates exhibiting a rising trend, additional swap arrangements of R300m were purchased in 1H F16 (total nominal value: R2.3bn), extending the swap maturity profile from 2.3 years to 3.2 years. Overall, 77% of debt was hedged (FYE15: 88%), with management indicating that a high hedge level (minimum of 70%) will be maintained going forward in view of the current interest rate cycle. Overall, Accelerate reported sound net interest cover, remaining at the 3x mark in 1H F16. Including the hedging losses, net interest coverage declined from 7.6x in F14 to 2.3x in F15, although it has improved to 2.9x in 1H F16.

Large fair value gains on the properties registered at R442m in F15 (F14: R425m). No properties were revalued during the interim period F16. Accelerate's entire property portfolio is independently valued on a three-year rotational basis. The last independent valuations were carried out as of FYE15. NPAT amounted to R741m in F15. Distributions of R303m in F15 closely aligned to forecast of R290m, with distributable income for the 12 months to 1H F16 having increased 36% YoY to R192m.

Cash flows

Cash generated by operations has tended to track well below operating profit, owing to the relatively large straight line adjustments following the on-take of sizeable new leases since listing. Cash generated in 1H F16 was reported at R272m (1H F15: R231m), with sound growth expected for the full year from recent acquisitions. This was largely eroded by higher net finance charges of R107m (1H F15: R82m), with cash flow from operations registering at R124m in 1H F16 (1H F15: R114m).

In F15 net expansionary capex totalled a moderate R329m, which follows R5.5bn spent on acquiring the initial portfolio at the time of listing. In 1H F16, capex of R986m was undertaken, largely funded through debt facilities that were drawn during the year. Further, the fund raised a net R395m through a new share issue (bookbuild), which was partly used to pay down debt.

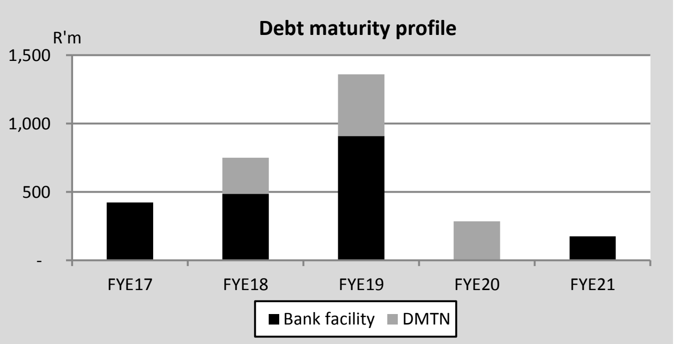
Funding and liquidity profile

The value of Acclerates's property portfolio has increased by 1.4x since listing to R7.6bn at 1H F16. This is largely attributable to continued acquisition activity, with the acquired assets funded via a combination of debt and equity. Total equity equated to R4.6bn at FYE15 (FYE14: R3.8bn), driven by the R309m share issue. This was to fund the acquisition of the Checkers distribution centre and shares issued under the agterskot arrangement (R162m). The REIT raised a further R395m in new equity in 1H F16, a portion of which arose from vendor placements in part consideration for the recent Noor acquisitions. No further contingent purchase payments were made during the interim period, with contingent liabilities relating to amounts outstanding on the agterskot agreement totalling R46m at 1H F16, down from R210m at FYE14.

Total debt was left unchanged at R2.4bn at FYE15, although it increased to nearly R3bn at 1H F16 via the addition of a new facility to fund the KPMG transaction. Since its establishment, Accelerate's strategy has been to maintain diversity of funding between different sources, as well as various institutions. In this regard, the fund established a R5bn Domestic Medium Term Note ("DMTN") programme. The initial issuances of R416m (in September 2014) and R285m (in October 2014) were oversubscribed and utilised to repay part of the Investec and RMB facilities. A further R452m was raised under the programme during 1H F16, part of which was used to partially settle an existing note and the remainder to refinance more of the Investec and RMB loans. As at August F15, GCR accorded all three secured DMTN issuances with long term ratings of AA-$_{(ZA)}$ and stable outlooks. Loans from the DMTN programme, as well as Investec and RMB are secured by a SPV holding the mortgages of 49 properties valued at R6.5bn. Whilst Accelerate reported a reduced exposure of R899m to RMB at 1H F16 (FYE15: R1.1bn), this is likely to increase post the Portside acquisition. The acquisition cost will be settled through an approximate R840m loan from RMB, albeit that the loan will form a separate obligation and will be secured directly to Accelerate's portion in the building. The inclusion of the new Standard Bank facility is positively viewed, with R880m raised during 1H F16 to fund the KPMG acquisition (R275m of which has already been repaid via an equity raise). This loan is collateralised by the 6 KPMG properties.

Table 6: Debt facilities (R'm)	**FYE15**	**1H F16**	**Redraw facility at 1H F16**
RMB	1,055.1	898.7	125.0
Investec	637.9	484.0	-
Standard Bank	n.a.	608.5	75.0
DMTN	701.0	1,001.0	-
Total	**2,394.0**	**2,992.3**	**200.0**

Accelerate has indicated a target LTV ratio of between 35% to 40%, which is in line with similar REITs and below its general debt covenant limit of a 50% ratio. At 1H F16 the LTV was reported at 39% (FYE15: 35%), but is likely to rise above 40% following the drawdown for Portside. Similarly, the net debt to EBITDA ratio of 510% and 511% at FYE15 and 1H F16 respectively is above the 400% benchmark for 'A' band rated REITs. As such, management has indicated that they may look to dispose of a limited number of non-core properties to decrease gearing. In the absence of this, further acquisitions will likely have to be funded by a higher portion of equity.



The fund's debt maturity profile is fairly well spread, although a level of concentration is noted in FYE19. Comfort, is however, drawn from the fact that underlying obligations are split across various counterparties and have staggered maturities in each of the respective years. Further, a relatively low 14% (R422m) and 16% (R486m) of total debt matures by FYE17 and FYE18 respectively, of which the first tranche (R184m) falls due in May 2016. Accelerate is currently evaluating options to refinance this amount.

Liquidity

As earnings are fully distributed, liquidity for REITs is underpinned by unutilised credit lines, the value of unencumbered properties, as well as the ability to raise funds from capital markets, asset disposals, or from private sources.

To this end, the fund's ability to successfully engage other banking counterparties and extend current facilities is positively viewed. Moreover, Accelerate has recently negotiated new revolving facilities with Standard Bank and RMB, which can provide up to R200m on funding at short notice. This should be sufficient to meet the planned capex spend on renovations and extensions of around R60m, although new facilities will have to be negotiated to refinance the R422m in debt maturing over the next 12 months. While Accelerate's portfolio is largely encumbered, this is partly mitigated by over-collateralisation on standing facilities. As such, whilst the Standard Bank facility displays a high LTV, this is moderated by the confortable LTV of 37% on the other combined secured debt facilities (RMB, Investec and DMTN). Liquidity support is also drawn from the fund's demonstrated ability to access both the equity and capital markets for new funding.

Outlook and rating rationale

Strong earnings growth for full year F16 is expected to be underpinned by the full contribution from recent acquisitions, notably the KPMG tenant base. The positive impact of this on rental income was already evident in 1H F16, whilst additional recent acquisitions should support further revenue enhancement in F17. Nonetheless, the current vacancies at Portside add a level of risk, albeit partly mitigated by the rental guarantee over the next five years. Acquisitions aside, income growth from core properties is likely to be around 8%, reflecting the good contractual rental escalations. Access to a largely captive deal pipeline of properties (through strategic legacy relations) bodes well for future asset growth, in view of the highly competitive property sector. Furthermore, comfort is derived from management's well-disciplined strategy execution to date, with transactions appearing to be well structured. This, coupled with the continued disposal of non-core assets and enhancement of existing properties through upgrades is expected to be supportive of sustainable earnings growth over the medium term.

Accelerate has indicated its intention to broaden the fund's geographic footprint offshore over the medium term. However, this will follow a cautious approach, which will entail finding suitable local partners to deliver on this strategy.

Note is taken of the fact that the fund has taken steps to introduce redraw facilities, but these are relatively small in comparison to short term maturing obligations and other highly rated REITs. Whilst the fund has demonstrated strong relationships with key banking counterparties and other funders, the overall LTV is relatively high compared with other highly rated REITs. This may limit Accelerate's ability to transact in the market if not reduced. Accordingly, GCR expects more subdued acquisition activity during F17, as the fund absorbs the recent large acquisitions, or for any potential acquisition to be predominantly equity funded.

Accelerate Property Fund Limited

(Rand in millions except as noted)

Year end : 31 March	2014#	2015	1H F16^
Income Statement			
Rental income	*204.8*	*699.7*	*417.5*
Straight-line income adjustment	*16.5*	*49.1*	*38.2*
Total revenue	**221.3**	**748.8**	**455.7**
Property expenses	(65.7)	(205.8)	(115.0)
Total property income	**155.6**	**543.1**	**340.7**
Admin and other expenses	(8.4)	(36.3)	(20.9)
Other income	0.0	0.5	0.8
Operating income	**147.3**	**507.2**	**320.7**
Net finance charges	(49.9)	(159.3)	(107.1)
Finance hedges and interest capitalised	30.4	(60.6)	(1.9)
Fair value movements	424.9	441.6	0.0
Realised gains (losses)	0.0	12.1	0.0
NPBT	**552.8**	**741.0**	**211.6**
Taxation charge	0.0	0.0	0.0
NPAT	**552.8**	**741.0**	**211.6**
Cash Flow Statement			
Cash generated by operations	**143.2**	**447.6**	**271.7**
Utilised to increase working capital	(17.2)	(51.6)	(37.4)
Net interest paid	(49.9)	(159.3)	(107.1)
Taxation paid	(12.3)	(0.0)	(3.0)
Cash flow from operations	**63.7**	**236.7**	**124.2**
Distributions paid	0.0	(220.9)	(131.2)
Retained cash flow	**63.7**	**15.8**	**(7.1)**
Net expansionary capex	(5,512.6)	(329.1)	(985.7)
Investments and other	0.0	0.0	36.0
Proceeds on sale of assets/investments	0.0	0.0	0.0
Shares issued	3,117.9	309.0	395.2
Cash movement: (increase)/decrease	(57.6)	(1.2)	(46.9)
Borrowings: increase/(decrease)	2,388.6	5.5	608.5
Net increase/(decrease) in debt	**2,330.9**	**4.3**	**561.6**
Balance Sheet			
Total shareholders' interest	**3,772.0**	**4,604.1**	**5,086.4**
Short term debt	358.3	238.9	183.5
Long term debt	2,030.3	2,155.2	2,808.8
Total interest-bearing debt	**2,388.6**	**2,394.0**	**2,992.3**
Interest-free liabilities	311.6	134.6	110.2
Total liabilities	**6,472.1**	**7,132.7**	**8,188.8**
Fixed assets	0.1	0.2	0.2
Properties (excl. straight-line adjustments)	6,147.5	6,782.4	7,739.4
Investments and advances	147.9	120.6	107.6
Cash and cash equivalent	57.6	58.8	105.7
Other assets	119.1	170.6	236.0
Total assets	**6,472.1**	**7,132.7**	**8,188.8**
Ratios			
Cash flow:			
Operating cash flow: total debt (%)	8.9	9.9	8.3
Profitability:*			
Rental income growth (%)	n.a.	241.6	19.3
Net property income: revenues (%)	62.9	66.0	66.4
Property expense ratio (%)	32.1	29.4	27.6
Operating profit margin (%)	63.9	65.5	67.6
Operating income: average total assets (%)	15.2	7.5	8.5
Return on equity (%)	n.a.	17.7	8.7
Coverage:			
Operating income: gross interest (x)	2.9	2.9	2.8
Operating income: net interest (x)	3.0	3.2	3.0
Operating income: total interest charge (x)	7.6	2.3	2.9
Activity and liquidity:			
Days receivable outstanding (days)	24.0	45.7	31.3
Current ratio (:1)	1.3	2.0	4.1
Capitalisation:			
Total debt: equity (%)	63.3	52.0	58.8
Net debt: equity (%)	61.8	50.7	56.7
Total debt: EBITDA (%)*	550.2	522.6	529.8
Net debt: EBITDA (%)*	536.9	509.8	511.1
Loan to value:			
Total debt: properties (%)	38.8	35.0	38.5
Net debt: properties (%)	37.8	34.2	37.1
Total debt: properties & investments (%)	37.9	34.7	38.1
Net debt: properties & investments (%)	37.0	33.8	36.8

#2014 relates to the 110 day period between listing and FYE14.

^ Unaudited results for the six months to 30 September 2015. Due to limited disclosure, certain line items and ratios are not directly comparable with full year numbers.

*Ratios based on rental revenue, op. income & EBITDA have been adjusted to exclude straight-lining rental accruals.

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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.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
CAGR	The compound annual growth rate is the year-on-year percentage growth rate of an investment over a given period of time.
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.
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.
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.
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.
Drawdown	When a company utilises facilities availed by a financial institution or an international lender there is said to be a drawdown of funds.
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.
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.
Floating Rate Note	A floating rate note/bond is a medium-term debt instrument that pays a variable interest rate. The coupon is usually set at a premium to LIBOR or its local equivalent such as JIBAR.
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.
Gross Lettable Area	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.
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.
Interest Rate Risk	The potential for losses or reduced income arising from adverse movements in interest rates.
Issued Capital	The par value of the proportion of authorised share capital that has been issued and allotted to shareholders in the form of shares.
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.
JSE	Johannesburg Stock Exchange.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
LIBOR	The London Interbank Offered Rate, or LIBOR, 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. It is quoted each business day for 10 currencies, over 15 maturity periods from overnight to 12 months.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity	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.
LTV	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.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
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.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
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.
Return On Equity	Return on equity, or ROE, is the ratio of a company's profit to its shareholders' equity, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds. Its main advantage is that it is a benchmark that allows investors to compare the profitability of companies in different industries.
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.
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.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.
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.

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SALIENT FEATURES 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.

Accelerate 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 Accelerate Property Fund Limited with no contestation of the rating.

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

- The 2015 audited annual financial statements (plus prior year of comparative numbers),
- 1H 2016 unaudited interim accounts
- Corporate governance and enterprise risk framework
- A breakdown of debt facilities available and related counterparties at 1H 2016
- A full breakdown of the property portfolio at 1H 2016
- Other 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.