



## Vukile Property Fund Limited - R1.02bn Senior Secured Floating Rate Notes Ratings Affirmed

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Johannesburg, 15 December 2014 — Global Credit Rating Co. ('GCR') has affirmed the *final, public* Long Term credit ratings of 'AA+<sub>(ZA)</sub>' with a Stable Outlook to the following Senior Secured Notes issued on 8 May 2012:

- R580m Secured Term Notes, stock code VKE01, maturity 8 May 2015;
- R200m Secured Term Notes, stock code VKE02, maturity 8 May 2016;
- R240m Secured Term Notes, stock code VKE03, maturity 8 May 2017.

### RATING RATIONALE

The secured property portfolio in the Transaction is of a diversified nature, comprising a mix of office/commercial (29.2%), industrial (21.9%) and retail (48.9%) properties. Vukile's secured property portfolio recorded a 6.9% rise in the market value to R3.67bn as at 30 September 2014, from R3.43bn as at 30 September 2013. Vukile had 12 assets (R1.42bn) in the secured property portfolio valued in March 2014 and the remaining 17 (R2.25bn) properties valued during September 2014. Vukile's properties are valued every six months on a rotational basis by independent external valuers (Broll, Jones Lang LaSalle, Knight Frank and Quadrant Properties).

Vacancy rates as a percentage of rentals on Vukile's secured property portfolio have improved from 5.4% as at September 2013 to 3.7% as at September 2014. Vukile continues to encounter challenges in the office property market, which resulted in vacancies remaining stable at 6.2% since September 2013 as a result of increased vacancies at the Centurion 259 West Street (33.8%), Jhb Parktown Oakhurst (20.5%) and the Sandton Bryanston St Andrews Complex (22.9%).

The cumulative arrears levels on the secured property portfolio were recorded at 2.9% as at September 2014, compared to 1.8% as at September 2013.

The secured property portfolio has a long dated lease expiry profile with 60.7% of the leases expiring from 2016 onwards (18.4% in 2016; 13.9% in 2017; 8.4% in 2018 and 20% in 2019 onwards).

The rating of the Secured Notes is derived by applying a notching approach, starting from the Long Term senior unsecured corporate credit rating of the Issuer. The Issuer is currently rated 'A<sub>(ZA)</sub>' and 'A1<sub>(ZA)</sub>' on the Long and Short Term scales respectively, with the rating being on Stable outlook. A rating uplift of *four* national scale notches was deemed appropriate in this particular transaction, given the "*Excellent Recovery Prospects*".

### RATINGS HISTORY

Stock code	Initial Rating	Long Term Rating	Short Term Rating	Outlook
VKE01	10 May 2012	AA <sub>(ZA)</sub>	n.a	Stable
VKE02	10 May 2012	AA <sub>(ZA)</sub>	n.a	Stable
VKE03	10 May 2012	AA <sub>(ZA)</sub>	n.a	Stable
Stock code	Last Rating	Long Term Rating	Short Term Rating	Outlook
VKE01	11 December 2013	AA+ <sub>(ZA)</sub>	n.a	Stable
VKE02	11 December 2013	AA+ <sub>(ZA)</sub>	n.a	Stable
VKE03	11 December 2013	AA+ <sub>(ZA)</sub>	n.a	Stable

## ANALYTICAL CONTACTS

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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Summary Structurally Enhanced Corporate Bonds Rating Criteria - revised Oct '14;  
 Vukile Property Fund Ltd Senior Secured Report - Dec '13;  
 Global Master Criteria for Rating Corporate Entities - Aug '14;  
 Global Summary Criteria for Rating Property Funds - updated Jul '14; and  
 Vukile Property Fund Ltd Rating Report - Feb '14.

## RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:



<http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS>. IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: <http://GLOBALRATINGS.NET/RATINGS-INFO/RATING-SCALES-DEFINITIONS>. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT <http://GLOBALRATINGS.NET>.

### **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.

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 Arranger 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 / Issuer:

- Property valuation documents of the properties the DMTN portfolio;
- Income and expenses per property per 30 September 2014;
- Tenancy lease schedules per 30 September 2014;
- Property risk grades;
- Forecast income and expenses per property;
- Vacancy and arrear levels per property;
- Audited financial results of the Issuer per 31 March 2014; and
- Unaudited interim results of the Issuer per 30 September 2014.

### **GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY**

Corporate Credit Rating	A credit rating accorded to a corporate entity.
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Credit Rating	A rating accorded to the performance of either ultimate or timely payment of obligations.
Credit Rating Agency	A party that provides an opinion on the credit quality of assets, debt securities and companies.
Credit Risk	The probability or likelihood that a borrower will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
JIBAR	Johannesburg Interbank Agreed Rate. A reference rate.
Lien	A right of retention of someone else's property due to expensed money or labour on property acquires a lien until payment is made.
Liquidity Risk	The risk that a financial instrument cannot be traded on its market price due to the size of the market.
Long Term Rating	A credit rating based on the opinion of the ability to repay long term (more than a year) obligations.
Property	Movable or immovable asset.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Short Term Rating	A credit rating based on the opinion of the ability to honour short term (less than a year) obligations.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.