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CREDIT OPINION

25 April 2018

Update

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RATINGS

Redefine Properties Limited

Domicile	South Africa
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Redefine Properties Limited

Update of Key Credit Factors Following Conclusion of Sovereign Review

Summary

On 27 March 2018, the outlook on Redefine Properties Limited's (Redefine or the company) Baa3/P-3 global scale ratings was changed to stable after being placed under review for downgrade on 29 November 2017 following a [similar action taken on the Government of South Africa](#) (Baa3 stable) on 23 March 2018. As a result we no longer see Redefine as being constrained by the government of South Africa credit rating.

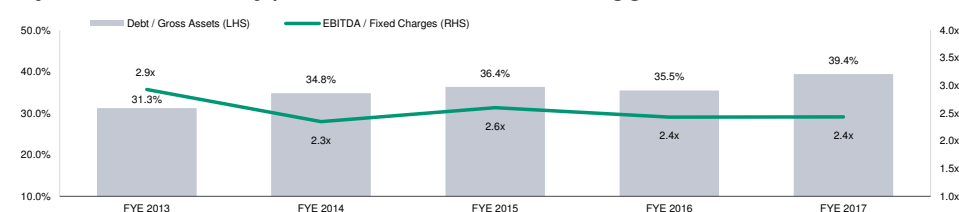
Redefine's Baa3/Aa1.za long-term issuer ratings are underpinned by a material growth of the company's property portfolio over the past 18 months within South Africa, as well as more recently into Europe and Australia. The sizable portfolio of predominantly directly held South African properties (81% of property assets) has moderate and relatively stable occupancy rates of 95%, that produced high EBITDA margins. The rating is also supported by a well-diversified property portfolio across key sectors in office, industrial and retail, with local and offshore property (direct and indirect) exposures in South Africa, United Kingdom, Poland and Australia.

The rating is however constrained by (1) the portfolio's predominant exposure to South Africa; (2) the more complex organisational and reporting structure; and (3) low fixed charge cover and high total debt to gross assets ratio (leverage) of 2.4x and 39%, respectively. Moody's notes that Redefine has recently entered into an agreement to sell a 19% stake in Cromwell Property Fund with proceeds of ZAR3.5 billion, most of which will be used to settle some of the existing debt and therefore reduce leverage. Further key constraints on the ratings include the large proportion of secured debt in the company's capital structure (68% of the total debt) and the high level of encumbered assets to gross assets.

All data points are as of year-end 31 August 2017 unless expressly stated otherwise and as per Moody's standard adjustments.

Exhibit 1

Key credit metrics weakly positioned but remain within rating guidance



Source: Redefine financials, Moody's Financial Metrics™

Credit strengths

- » Diversified property portfolio across key sectors in South Africa, with growing exposure to Europe
- » Stable cash flows supported by moderate vacancy rates and relatively stable operating margins
- » Liquidity is sufficient to meet obligations during the next 12-18 months

Credit challenges

- » Debt funded acquisitions to weaken credit metrics, but remain within Baa3 tolerance levels
- » Limited track record of managing direct property exposures offshore
- » Complex organisational and reporting structure

Rating outlook

The stable outlook reflects Moody's view that Redefine will continue to produce steady rental income and make well-conceived investments within its stated financial policies. It also assumes that management will maintain an adequate liquidity profile at all times.

Factors that could lead to an upgrade

As a result of the high degree of rating linkage to the South African government bond rating, any future pressure on Redefine's ratings and outlook will have to be considered in the context of the South African long term bond rating position and outlook at the time.

Subject to the South African government bond rating, Moody's would consider an upgrade if:

- » Portfolio size and diversification materially improves;
- » Good track record as a rated entity is maintained;
- » Leverage, defined as adjusted total debt/gross assets, is maintained sustainably below 35% and fixed charge coverage above 3.0x on a sustained basis; and
- » Ratio of secured debt/property assets falls below 25%.

Factors that could lead to a downgrade

We would consider a downgrade if one or a combination of the following occurs:

- » Adjusted total debt/gross assets exceeds 40% on a sustained basis;
- » Fixed charge coverage trends below 2.5x;
- » Ratio of secured debt/property assets remains above 30%;
- » Unexpected difficulties integrating acquisitions arise, having a negative impact on the operational performance or cash flows of the company; and
- » Deterioration of Redefine's liquidity risk profile.

Redefine's ratings may also be negatively affected by changes in the ratings of the government of South Africa.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators table

Exhibit 2

KEY INDICATORS [1]

Redefine Properties Limited

	8/31/2013	8/31/2014	8/31/2015	8/31/2016	8/31/2017
FFO Payout	136.3%	68.7%	102.9%	109.2%	118.8%
Amount of Unencumbered Assets	47.6%	41.8%	45.0%	51.6%	42.6%
Debt / Gross Assets	31.3%	34.8%	36.4%	35.5%	39.4%
Net Debt / EBITDA	4.9x	5.2x	5.5x	5.2x	5.4x
Secured Debt / Gross Assets	24.8%	28.7%	22.7%	20.5%	24.0%
Gross Assets (USD Million)	\$4,804	\$5,424	\$5,540	\$5,417	\$7,031
Development Pipeline	6.9%	6.1%	4.5%	4.4%	6.9%
EBITDA Margin (YTD)	94.9%	82.8%	97.6%	105.0%	113.9%
EBITDA Margin Volatility	7.9%	8.5%	9.4%	8.4%	11.8%
EBITDA / Fixed Charges (YTD) [2]	2.9x	2.3x	2.6x	2.4x	2.4x
Joint Venture Exposure (YTD)	2.4%	3.6%	7.3%	8.3%	4.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, revised December 2010.

Source: Moody's Financial Metrics™

Profile

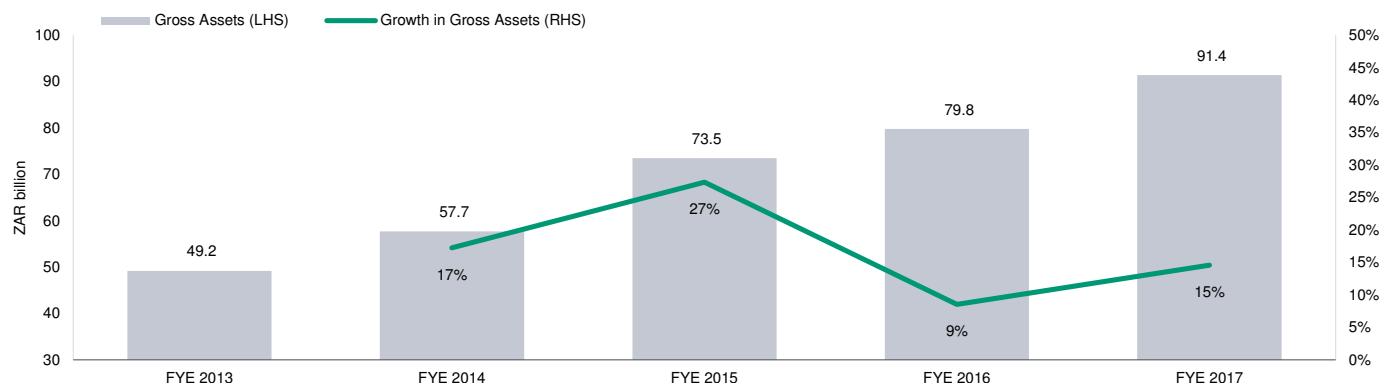
Redefine Properties Limited is one of the largest commercial real estate investment trust (REIT) listed on the Johannesburg Stock Exchange (JSE) in South Africa by total reported assets (\$7.0 billion) as at 31 August 2017. Its activities include direct investments in property assets as well as investments in the listed securities of other commercial property investment companies. Redefine's offshore property exposure is held through its key investments in RDI REIT PLC (29.8%) in the UK, Cromwell Property Group (3.1%) and Northpoint Tower (50% joint venture) in Australia; and its investment in Echo Polska Properties (39.5%).

Detailed rating considerations

Sizeable portfolio diversified across sectors

The value of Redefine's direct and indirect property portfolio has grown materially over the past 3 years to ZAR91.4 billion from ZAR49.2 billion as a result of a number of moderately sized property portfolio acquisitions, the latest being Pivotal and 39.5% stake in Echo Prime Properties (Echo). Redefine's direct property portfolio totals ZAR70.1 billion comprising mostly of South African properties and a small direct exposure in Germany and Australia. Its other investments include sizable strategic holdings of listed REIT securities in Europe, Africa and Australia. We consider Redefine's total property portfolio to be sizable and comfortably positioned within the Baa rating category.

Exhibit 3

Growth of property portfolio driven by local and offshore acquisitions

Source: Redefine financials, Moody's Financial Metrics™

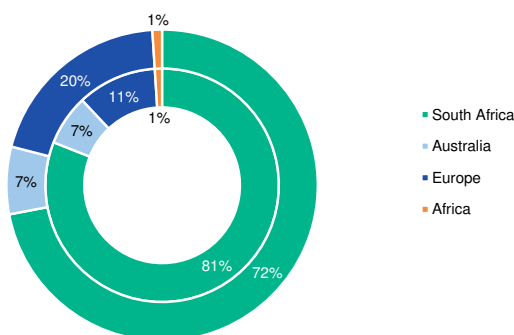
Redefine's property exposure in South Africa is diversified across the retail, industrial and office sectors. However, due to its exposures to the office and industrial sectors (35% and 19% of gross lettable area or GLA) it faces risks from the current weak local economic environment. Redefine has taken the necessary steps to increase its exposure in the retail sector, which we view as a less risky and a more resilient sector. Redefine is also looking to pursue new opportunities in less traditional sectors, such as student accommodation, however this is currently a relatively small exposure.

We anticipate only marginal capital growth on Redefine's South African property portfolio in the next 12 to 18 months, driven by uncertainties in global markets, weak local demand and slowing consumer confidence, which all restrict capital growth in the South African property market. While it is not our expectation, negative property value growth could weaken the debt to gross assets ratio beyond the levels for the current rating.

Increasing offshore property exposure diversifies property portfolio and cash flows

Geographically, Redefine's directly held South African properties, which represent 80.5% of group property assets, are highly concentrated in two provinces: Gauteng and the Western Cape (73% and 18% of GLA respectively). However, these two provinces are also the wealthiest and the most economically active, as measured by contribution to the South African gross domestic product, and should be more resilient to a weakening economy. Furthermore, the concentration risk is partially offset by its exposure to European properties. We anticipate Redefine to pursue direct investment opportunities outside of South Africa (particularly in Europe) up to around 25% of total property assets, providing the company with a Rand hedge exposure. We view Redefine's diversity as good, consistent with a Baa rating factor.

Exhibit 4

Moderate but growing offshore property exposure by property value (inner circle) and by income distribution (outer circle)

Source: Redefine FYE 2017 financials

Strategic focus on improving the quality of the portfolio

Management's strategy has been to upgrade the core property portfolio in South Africa through disposals of non-core holdings, and reinvesting the proceeds through redevelopments and acquisitions in larger, well-located and higher grade properties. Furthermore, Redefine has recently made targeted acquisitions totalling ZAR13.9 billion, which includes the acquisition of Pivotal Property Fund and equity investment in EPP.

Over the past three years Redefine has improved the size and quality of its South African portfolio, with average property values increasing to ZAR182 million in FYE2017 from ZAR95 million in FYE2013, with a higher proportion of A and B-grade tenants. 70% (64%: FYE2014) of its tenants were A-grade, 20% (23%: FYE2014) B-grade and 10% (13%: FYE2014) C-grade. Tenant classifications are as follows: A-grade: national, provincial and local government departments, parastatal entities, national retailers and large listed companies; B-grade: professional firms and medium-sized companies; C-grade: other. We consider Redefine to have a moderately diversified tenant base, with the top ten tenants representing 31% of total gross monthly rental, with the South African government being the largest tenant at 5.4% of gross monthly income. We understand that management intends to continue to dispose of non-core assets which include its government tenanted office portfolio (3.2% of GLA) and older properties outside the main three economic hubs (Johannesburg, Cape Town and Durban) in South Africa, contributing to the improvement of its portfolio quality.

In addition to the above steps Redefine continues to invest in redevelopments and new developments of approximately ZAR2.8 billion in FYE2017. We view the company's approach to development risk as conservative, expanding its portfolio and quality through low risk, purpose-driven developments, with speculative developments not exceeding 3% of its property assets. At year-end 2017, development property assets plus planned expenditure represented 5% of gross assets, consisting of primarily tenant driven and pre-let developments. Furthermore, Redefine's refurbishment capital expenditure are seen as lower-risk extensions being made to existing successful properties, ensuring its property portfolio remains current.

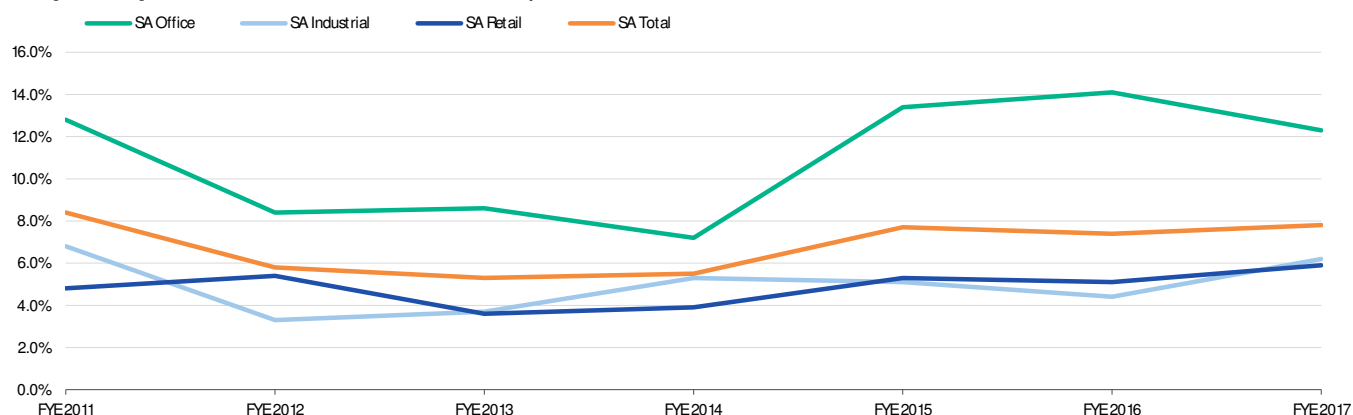
Moderate vacancies, above inflation contractual rental escalations and manageable annual lease expiries support stable cash flows

Redefine's ratings are underpinned by recurring, contractual rental income. Reported income comprised of 96.2% income from investment properties, 3.5% income from the listed securities of commercial property investment companies and 0.3% from trading and other fee income.

Above-inflation price increases of local utilities, electricity concerns and the weak South African economic environment (Moody's real GDP growth forecast is 1.4% for 2018 and 1.9% for 2019) will continue to put pressure on tenants. We anticipate that this will continue to be reflected in either higher vacancy levels or lower renewal rental escalations translating into lower operating margins. We expect the office and industrial sectors to feel the effect more relative to the more defensive retail sector. In order to retain existing tenants and keep vacancy rates low, we anticipate higher tenant incentives, which will increase costs, and below-inflation rent renewals, which will pressure revenue growth and operating margins. Redefine will continue to manage its cost structure through ongoing cost efficiency programmes.

Redefine's overall vacancy rates remained stable at 7.8%, broken down by offices at 12.3% (14.1%: FYE 2016), retail at 5.9% (5.1%: FYE2016) and industrial at 6.2% (4.4%: FYE2016). Redefine's vacancies are in line with the South African market average of around 11% (Independent Property Database - IPD), while its retail and industrial vacancies are broadly in line with the South African market. We consider Redefine's overall vacancy rate to be above its domestic rated peers in South Africa: Growthpoint Properties Limited (4.4% as at 30 June 2017) and Fortress Income Fund (5.3% as at 30 June 2017).

Exhibit 5

Steady vacancy rates across Redefine's South African portfolio

Source: Redefine financials

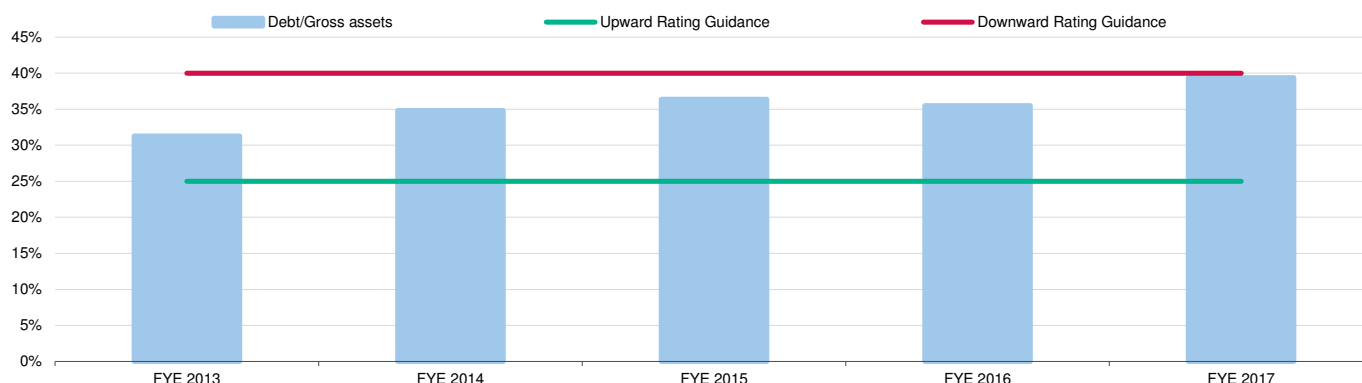
Over the next 2 years, approximately between 10% and 15% of Redefine's leases expires each year, which we view as manageable. Furthermore, the South African portfolio has a weighted average lease expiry (WALE) of 3.8 years, which is in line with the average in South Africa but lower compared to Europe and Australia. Tenant renewal retention (percentage of leases expiring that are successfully renewed) over the past year was high at 93%, which was due to successful retention strategies employed over the period. Going forward we expect retention rates to remain above Redefine's historical average of around 80%. However, new and renewal rental growth rates of around 1.7% for 31 August 2017 are likely to remain under pressure and below inflation (February 2018 consumer price index: 3.8% year-on-year growth). This will however be offset by the annual rent escalation clauses from existing tenant contracts of between 7% and 8%.

Redefine's net rent arrears levels remain well controlled at ZAR67.9 million (ZAR39.8 million in FYE2016), representing 7.5% of the gross contractual monthly rental income. With the current weak economic environment and above inflationary cost pressures on tenants, we anticipate some upward pressure in the near term, however we do not expect it to be material given the diversity of Redefine's property portfolio.

Weak credit metrics limit financial flexibility but remain within the Baa3 rating guidance

Given the number of sizable acquisitions and investments in new developments made during the past 3 years, we have seen a weakening trend in credit metrics, despite Redefine balanced approach to funding the growth. Leverage, defined as gross debt to gross assets, increased to 39.4% from 31.3% in FYE 2013. We expect leverage to remain elevated close to 40% level. While this remains within the Baa rating range, it reduces Redefine's financial flexibility to pursue debt funded acquisitions or accommodate weaker performance.

Exhibit 6

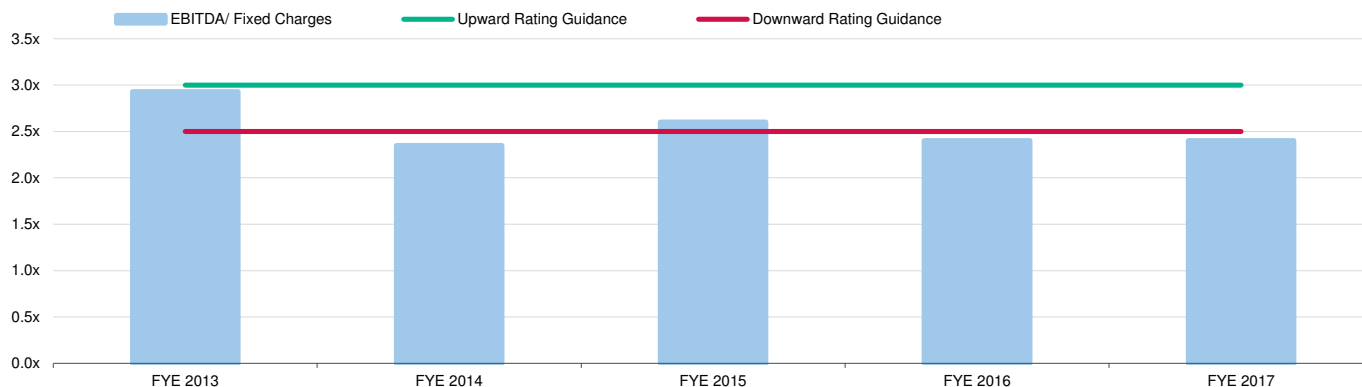
Debt/Gross Assets expected to remain elevated

Source: Redefine financials, Moody's Financial Metrics

We note that the organisational and financial complexity of Redefine makes it difficult to fully capture Redefine's strategic equity accounted property exposures from consolidated financials, which tend to have higher leverage than Redefine. Further material leveraging of these investments, which are not fully reflected in Redefine's consolidated financials, may have a negative impact on the credit profile of Redefine.

Redefine's fixed charge ratio remain weakly positioned at 2.4x. We expect to see continued improvement in Redefine's fixed charge cover ratio, as acquisitions and developments contribute for the full 12 months to cash flows.

Exhibit 7

Fixed charge cover moderately positioned

Source: Redefine financials, Moody's Financial Metrics

Management has hedged 89% of its floating interest rate debt to fixed interest rates with average expiry of 2.7 years at an average cost of borrowing of 7.3% (7.7% in FYE2016). This compares to a minimum hedging target of 75% of outstanding debt to be fixed and provides a high level of protection against rising interest rates, which would otherwise place downward pressure on the fixed charge ratio.

Redefine's high level of secured debt to gross assets at 24% and unencumbered assets at 43% of gross assets (both equivalent to a Ba rating category), are considered weak for its ratings category. We recognize that management has an ongoing strategy to shift its financing from secured debt towards unsecured borrowings and improve the level of unencumbered assets, which would be positive for the rating positioning.

Liquidity analysis

Redefine's liquidity is deemed sufficient to meet its obligations over the next 12-18 months, supported by positive and stable cash flow from operations, available credit facilities of ZAR3.0 billion and listed property investments totalling ZAR14.6 billion in FYE2017. In addition, Redefine has introduced a distribution reinvestment plan which, at the option of the investor electing to take units/shares instead of dividends, will free up additional liquidity sources for Redefine.

We note however that ZAR14 billion (approximately 41% of total debt) matures in the next 2 years, which we consider high and would expect Redefine to address debt maturities well ahead of time.

The fund's current credit facilities are provided by a variety of leading South African banks and are subject to covenants and material adverse change (MAC) clauses. At present, these covenants have good headroom.

Moody's rates Redefine's access to diversified sources of funding as good, consistent with a Baa rating.

Rating methodology and scorecard factors

The principal methodology used in rating Redefine was Moody's Approach for REITs and Other Commercial Property Firms, published on 30 July 2010. We note that the grid implied rating is based on historic financial information while the rating is factoring our expectation of future performance and more complex organisational and financial structure.

Exhibit 8

Rating Factors				
Redefine Properties Limited				
REITs and Other Commercial Property Firms Industry Grid [1][2]			Current FY 8/31/2017	Moody's 12-18 Month Forward View As of 3/19/2018 [3]
Factor 1: Liquidity and Funding (24.5%)	Measure	Score		
a) Liquidity Coverage	Ba	Ba		Ba
b) Debt Maturities	Ba	Ba		Ba
c) FFO Payout	118.8%	Caa		73% - 75% Baa
d) Amount of Unencumbered Assets	42.6%	Ba		32% - 34% B
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets	39.4%	Baa		36% - 38% Baa
b) Net Debt / EBITDA	5.4x	Baa		4x - 4.5x Baa
c) Secured Debt / Gross Assets	24.0%	Ba		24% - 25% Ba
d) Access to Capital	Baa	Baa		Baa Baa
Factor 3: Market Position and Asset Quality (22%)				
a) Franchise / Brand Name	A	A		A A
b) Gross Assets (USD million)	\$7,031	Baa		\$8,000 - \$8,500 Baa
c) Diversity: Location / Tenant / Industry / Economic	Baa	Baa		Baa Baa
d) Development Pipeline	6.9%	A		4% - 5% Aa
e) Asset Quality	Baa	Baa		Baa Baa
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin (YTD)	113.9%	Aa		95% - 100% Aa
b) EBITDA Margin Volatility	11.8%	B		9% - 10% Ba
c) EBITDA / Fixed Charges (YTD) [4]	2.4x	Baa		3.2x - 3.5x A
d) Joint Venture Exposure (YTD)	4.1%	Aa		5% - 6% A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2017.

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

[4] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

Source: Source: Moody's Financial Metrics™

Appendix

Exhibit 9

Peer comparison table

	Redefine Properties Limited			Growthpoint Properties Limited			Hyprop Investments Limited			Fortress REIT Limited		
	Baa3 Stable			Baa3 Stable			Baa3 Negative			Baa3 Stable		
(in USD million)	FYE Aug-16	FYE Aug-17	LTM Aug-17	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17
Real Estate Gross Assets	\$5,417	\$7,031	\$7,031	\$8,110	\$9,684	\$10,678	\$2,552	\$2,966	\$3,278	\$3,764	\$4,723	\$5,642
Total Debt	\$1,925	\$2,773	\$2,773	\$2,666	\$3,264	\$3,541	\$914	\$990	\$1,153	\$865	\$1,133	\$1,393
EBITDA Margin (YTD)	105.3%	113.9%	113.9%	83.1%	80.7%	81.2%	92.0%	92.0%	93.3%	164.5%	174.5%	187.3%
EBITDA Margin Vol	8.5%	11.8%	11.8%	3.8%	3.3%	2.1%	4.7%	4.7%	4.3%	19.1%	16.9%	9.8%
EBITDA / Fix. Charges (YTD)	2.4x	2.4x	2.4x	3.2x	3.3x	3.4x	3.4x	3.9x	3.7x	3.2x	3.1x	3.3x
FFO Payout	109.2%	118.8%	118.8%	85.4%	123.9%	132.3%	100.4%	84.8%	87.0%	128.5%	146.0%	54.0%
Debt / RE Gross Assets	35.5%	39.4%	39.4%	32.9%	33.7%	33.2%	35.8%	33.4%	35.2%	23.0%	24.0%	24.7%
Net Debt / EBITDA	5.1x	5.4x	5.4x	4.4x	4.6x	4.6x	5.5x	4.7x	5.2x	4.6x	3.4x	3.6x
Sec. Debt / RE Gross Assets	20.5%	24.0%	24.0%	25.8%	23.6%	22.1%	30.3%	26.4%	30.2%	18.9%	20.4%	19.5%

All figures and ratios are calculated using Moody's estimates and standard adjustments.

FYE = financial year-end; LTM = last twelve months.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

(in ZAR thousand)	FYE Aug-12	FYE Aug-13	FYE Aug-14	FYE Aug-15	FYE Aug-16	FYE Aug-17
As Reported Debt	24,233,820	20,100,786	19,756,529	23,582,366	28,190,102	34,713,186
Operating Leases	128,060	115,720	115,200	148,027	140,385	225,250
Non-Standard Adjustments	-4,410,414	-4,833,119	218,000	2,995,000	0	1,109,561
Moody's-Adjusted Debt	19,951,466	15,383,387	20,089,729	26,725,393	28,330,487	36,047,997

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

(in ZAR thousand)	FYE Aug-12	FYE Aug-13	FYE Aug-14	FYE Aug-15	FYE Aug-16	FYE Aug-17
As Reported EBITDA	4,223,245	4,611,698	6,134,856	7,200,422	6,764,084	6,114,630
Operating Leases	12,806	11,572	11,520	15,443	19,313	22,525
Unusual	-1,706,231	-1,355,816	-2,099,328	-2,302,013	-502,692	809,196
Non-Standard Adjustments	-75,396	-186,807	-284,597	-94,191	-808,886	-299,340
Moody's-Adjusted EBITDA	2,454,424	3,080,647	3,762,451	4,819,661	5,471,819	6,647,011

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
REDEFINE PROPERTIES LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Secured	Baa3
Senior Unsecured MTN -Dom Curr	(P)Baa3
Other Short Term -Dom Curr	(P)P-3
NSR Senior Unsecured MTN	Aa1.za
NSR LT Issuer Rating	Aa1.za
NSR ST Issuer Rating	P-1.za
NSR Other Short Term	P-1.za

Source: Moody's Investors Service

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