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CREDIT OPINION
27 February 2024

Update

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RATINGS

Redefine Properties Limited

Domicile	South Africa
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
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 to credit analysis

Summary

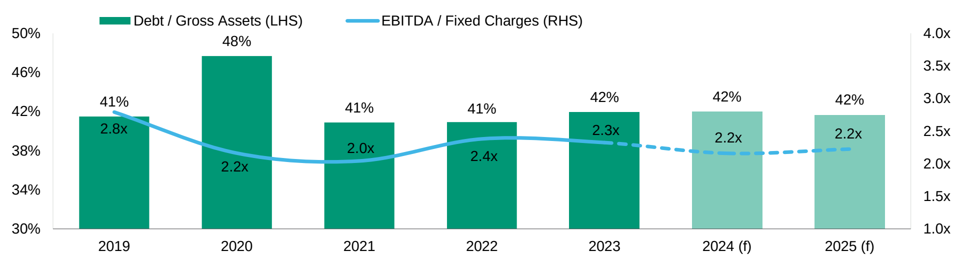
Redefine Properties Limited's (Redefine) Ba2 corporate family rating (CFR) is underpinned by its strong market position, good asset quality, and sizeable property portfolio. Its portfolio is diversified across key assets in office, industrial and retail, with an offshore property exposure to Poland (A2 stable). Redefine improved its adjusted gross debt to total assets ratio to 42% as of August 2023 from 48% in 2020, supported by asset disposals and has maintained a stable performance during 2023.

The rating is constrained by the portfolio's predominant exposure to South Africa (Ba2 stable) with 62% of property value derived from the country as of 31 August 2023. South Africa's operating environment remains challenging especially with respect to the company's office portfolio. We expect stable vacancies and lower rental growth prospects in the next 12 months, particularly in the office segment where there is an oversupply.

Whilst Redefine benefits from some diversification into Poland through its 95.5% and 48.5% effective ownership of EPP and ELI which represent 38% of the group's property value, this is not sufficient to warrant a delinking from the South Africa sovereign rating. South Africa's challenging macroeconomic and operating environment is hampering the recovery in the real estate sector and we expect the leasing market to remain very competitive.

Exhibit 1

Credit metrics are adequately positioned within rating guidance



All ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end (31 August) unless indicated.
Source: Moody's Investors Service

Credit strengths

» Diversified property portfolio in South Africa with exposure to Poland

» Strong market position and good asset quality

» Improved gross debt to total assets ratio following asset disposals

Credit challenges

» Geographic concentration in South Africa

» Low growth prospects and challenging real estate market outlook in South Africa

» Weak unencumbered assets ratio

Rating outlook

The stable outlook is in line with that of the sovereign rating and it reflects Redefine's exposure to the economic trends in South Africa.

Factors that could lead to an upgrade

Subject to an upgrade of South Africa's rating, an upgrade could be considered if: (1) total debt to gross assets remains below 45% on a sustained basis; (2) fixed charge coverage ratio remains well above 2.5x on a sustained basis.

Factors that could lead to a downgrade

The ratings are likely to be downgraded in case of a downgrade of the South Africa's rating. We would also consider a downgrade if: (1) total debt to gross assets trending towards 55%; (2) fixed charge coverage ratio falling below 2.0x; (3) the company's liquidity risk profile deteriorates.

Key indicators

Exhibit 2

(in $ billions)	2019	2020	2021	2022	2023	2024 (f)	2025 (f)
Real Estate Gross Assets	6.7	4.8	5.2	5.4	5.3	5.3	5.3
Unencumbered Assets / Gross Assets	40%	33%	38%	34%	36%	35%	35%
Total Debt + Preferred Stock / Gross Assets	41%	48%	41%	41%	42%	42%	42%
Net Debt / EBITDA	5.4x	6.5x	5.7x	6.1x	6.6x	6.2x	6.3x
Secured Debt / Gross Assets	26%	30%	28%	34%	31%	31%	31%
Fixed Charge Coverage	2.8x	2.2x	2.0x	2.4x	2.3x	2.2x	2.2x

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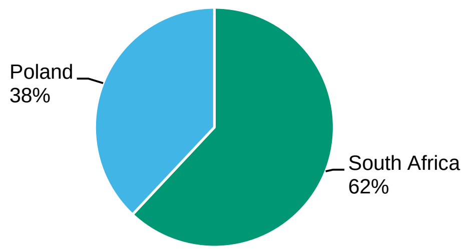
Source: Moody's Investors Service

Profile

Redefine Properties Limited is one of the largest real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange. Its activities include direct investments in property assets across the retail, industrial and office sectors. Redefine's main offshore property exposure is held through its investment in EPP N.V.. Redefine took full control of EPP during fiscal year 2022 through the acquisition of 95.5% of its equity.

Exhibit 3

Geographic footprint by asset value



As of 31 August 2023

Source: Company information

Detailed credit considerations

Geographic concentration in South Africa increases risks, despite exposure to Poland

Redefine is significantly exposed to South Africa, whose real estate market remains challenging. Whilst Redefine's asset base is diversified across the retail, industrial and office sectors, around 62% of the company's asset value are investment properties in South Africa. As a result, the company's credit profile is highly exposed to the macroeconomic environment in South Africa. The company's property assets are concentrated in two provinces in South Africa: Gauteng and the Western Cape which are two of the wealthiest and the most economically active regions in the country. We expect the leasing market to remain very competitive, particularly in the office sector. Pressure on portfolio value will persist because market rental growth assumptions are muted, tenant retention is uncertain and the macroeconomic environment remains challenging.

The company's primary focus of diversification is to Poland following divestments of non-core assets in Australia and UK. During fiscal year 2022, Redefine took full control and began to consolidate EPP from the previous 45.4% stake. Redefine's investment in EPP partly offsets the company's large footprint in South Africa because EPP is one of the top owners and managers of food, fashion and entertainment-anchored shopping centres in Poland. Redefine's total exposure to Poland (including its European logistics platform), which is the main focus of its expansion strategy, has increased to 38% as of August 2023 from 14% on a property value basis following the control takeover transaction. We believe that EPP's business fundamentals remain solid and the real estate market is in a better position than the South African one. Poland's economy grew strongly until the start of the pandemic and we expect GDP growth of 2.2% in 2024.

Since the second half of 2021, 100% of GLA has been continuously operational, and footfall for the South African and Poland business continues to slowly improve towards pre-pandemic levels, while turnover in FY2023 was 106% of prior year and in FY 2022 it reached 107% of pre-pandemic levels driven by essential service retailers. South Africa's vacancy rate increased to 7.0% as of August 2023 from 6.7% in August 2022 due to high vacancy levels in the office segment that reached 11.4% as of August 2023. In Poland, the vacancy levels increased to 7.5% of the total GLA as of August 2023, compared to 6.5% in August 2022.

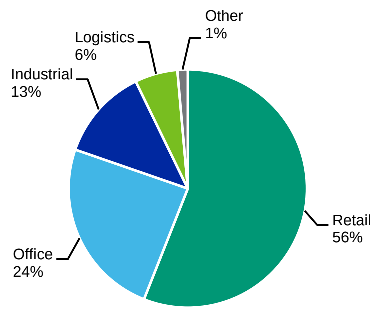
Despite Redefine's increased exposure to Poland, the company's asset base, revenue and cash flow generation remain reliant on its South African portfolio. As a result we believe the existing diversification into Poland is not sufficient to warrant a delinking from the South African sovereign rating.

Strong market position and good asset quality, a credit positive

Redefine has a strong market position and is one of the largest REITs in South Africa with a sizeable property portfolio of ZAR97 billion. We consider the company's market positioning and asset quality as very good, equating to rating sub-factor of “A”. The company continues with its asset recycling strategy to maintain a portfolio of modern specification buildings. Rental income is generated from a diversified tenant base across the retail, office, industrial and logistics sectors. In South Africa, the company's larger retail tenant exposures are some of the country's pre-eminent retail brands such as Shoprite, Pick n' Pay, The Foschini Group, Pepkor Holdings (Ba2 stable), and Woolworths. The company's top 10 retail tenants occupy 47% of the total available GLA excluding vacancies which could represent a concentration risk should key retail tenants decide to vacate their stores.

Exhibit 4

Segmental breakdown by asset value



As of 31 August 2023

Source: Company information

Additionally, the company has good medium to long-term leases with a weighted average lease expiry (WALE) of 3.5 years in South Africa and 3.7 years in Poland as of August 2023. Redefine's South Africa renewal success rate increased during 2023 to 86% from 77% a year before, however the company's average renewal growth rates on new leases was -6.7%. This reflects the challenging and competitive operating environment in South Africa which is somewhat offset by the average in-force annual escalations of 6.4%, as of 30 August 2023.

Loadshedding and weak office market drive a challenging operating environment in South Africa

We believe Redefine's business profile would benefit from further geographical and sector diversification, nevertheless it remains significantly exposed to South Africa's economic environment. South Africa's real estate operating environment remains challenging especially with respect to the company's office portfolio and we expect the leasing market to remain very competitive. We expect that pressure on portfolio value will persist, in the office segment in particular, because market rental growth assumptions have declined, tenant retention is uncertain and the macroeconomic environment remains challenging.

In the first half of 2023, South Africa's real GDP expanded by 0.9% year on year, a slowdown from the 2.6% year-on-year growth in the first half of 2022 and 1.2% in the first half of 2022. This slowdown was due to the record levels of load shedding in the country, uncertainties regarding global economic growth and the adverse impact of tight global and domestic financing conditions. We expect South Africa's GDP to grow by 0.9% in 2023 and 1.5% in 2024 while we expect inflation levels will reach 5.0% and 4.6% in 2023 and 2024 respectively.

South Africa is also exposed to civil unrest, as demonstrated during July 2021. We consider civil unrest to increase the risks of an economic slowdown and highlight the social challenges the government faces in progressing its reform agenda. We understand that Redefine's assets did not suffer material damage. Additionally, South Africa is not particularly affected by the Russia-Ukraine conflict due to its limited trade links with both countries. Its most significant direct exposure is primarily through higher inflation and thereby fiscal pressure stemming from social demands.

In the retail segment, retailers' turnovers remain under pressure because of the loadshedding disruption and increasing costs. South Africa's retail portfolio had a vacancy level of 6.4% as of August 2023 but tenants remain keen to downsize space and look to reduce cost occupancy ratio. Focus on tenant retention and structuring leases with longer weighted average lease expiry will continue to negatively impact rental growth rate as shown by the rent reversion on renewals in 2023 which was -4.1%. In the office segment, weak corporate demand and structural over supply will continue to drag rental prices down. Intense competition amongst landlords and market vacancies will remain high and key tenants are pursuing shorter lease agreements. Nevertheless, the South Africa office portfolio vacancy level reduced slightly to 19.2% in June 2023 from 20.7% as of June 2022.

Overall, we expect Redefine to experience lower rent negotiations when renewing leases, or offer greater component of its rent based on turnover, in line with the demand made by large South African retailers including Woolworths Holdings Limited, Foschini Group, Pepkor Holdings Limited (Ba2 stable). Turnover-based rents will reduce the predictability of rental income, a credit negativeh Redefine does not have a large portion of its rental linked to turnover-based rentals.

Adequate Loan to value due to asset disposals

Adjusted gross debt to total assets (Loan to value, LTV) was 41.9% or the fiscal year ending 31 August 2023, below the peak reached during 2020 of 47.7%. LTV has remained stable between 40% and 42% during the last three fiscal years as it improved from 2020 due to Redefine's internal initiatives to stabilize it. As part of these initiatives, Redefine made solid progress on asset disposals, such as the sale of its Australian student accommodation portfolio for AUD459 million and the sale of local non performing properties. During 2023, the company has sold 17 assets (including land plots) of its South African portfolio for an amount of ZAR649 million. During fiscal 2021 and 2022, the company also reduced speculative capital expenditure and halted local property acquisitions although during 2023, the company has invested over ZAR1.1 billion in four new properties and fours developments completed in South Africa.

These initiatives are in line with Redefine's strategy which includes the disposal of non-core assets across its property asset platform in order to focus on its core markets being South Africa and Poland. In 2024, we expect further pressure on property valuations, following the historical trend of the last 4 years which will be partly offset by the company's internal initiatives to maintain the loan to value ratio below 40%. This will likely result in an adjusted gross debt to total assets between 40% to 42%. We also estimate an adjusted fixed charge coverage of 2.2x for the next 12 to 18 months.

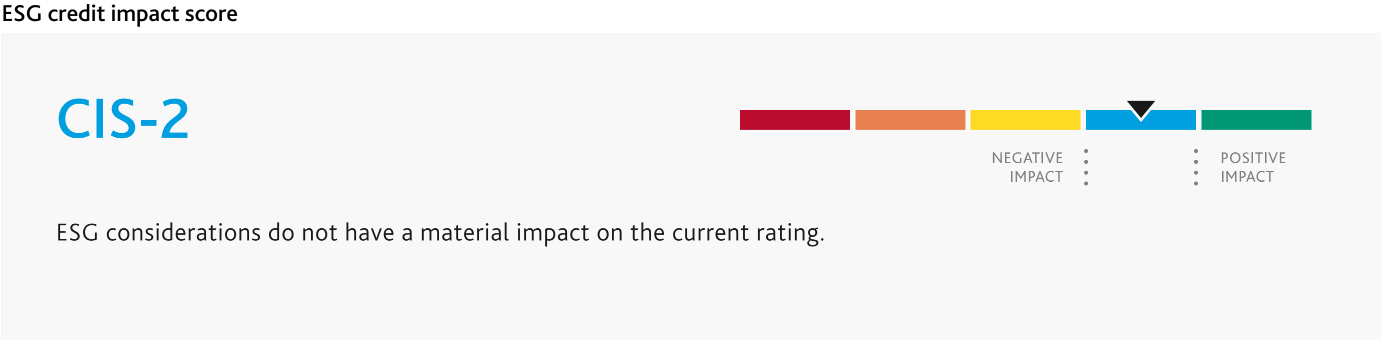
South African property companies have traditionally favored secured debt through bank loans. Redefine's adjusted unencumbered assets ratio of 36% is weak. We will monitor the extent to which secured debt and encumbered assets increases because this would be increasingly disadvantageous for unsecured creditors.

ESG considerations

Redefine Properties Limited's ESG credit impact score is CIS-2

Exhibit 5

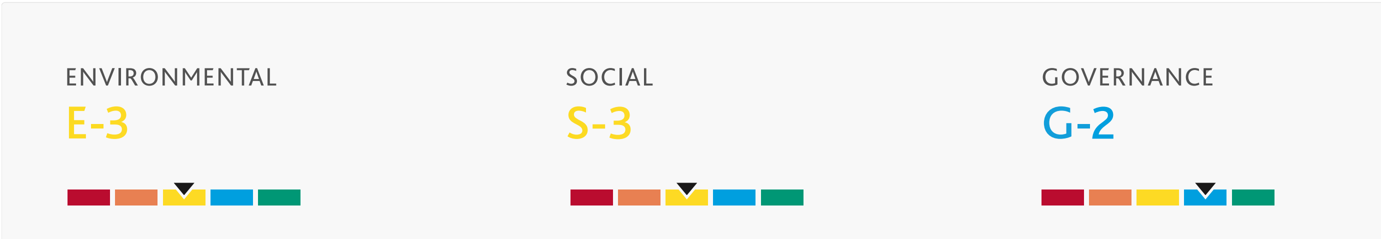
ESG credit impact score



Source: Moody's Investors Service

Redefine's ESG Credit Impact Score CIS-2 indicates that ESG considerations have limited impact on the current credit rating. Redefine has a higher exposure to environmental (E-3) and social risks (S-3) compared to governance risk (G-2).

Exhibit 6
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Redefine's **E-3** environmental issuer profile score reflects the company's physical climate and carbon transition risks. Redefine has a diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, real estate companies' exposure to physical risk is material given our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and their physical asset-intensive business models. In South Africa, significant parts of the population periodically face severe droughts. As climate change intensifies, water scarcity is likely to become increasingly constraining. Exposure to carbon regulation is growing as more jurisdictions establish emission and energy-efficiency guidelines. A property's environmental footprint (parameters such as energy efficiency, water usage, waste management and indoor environment quality) could influence leasing outcomes because tenants are becoming more sensitive to the green attributes of their leased spaces.Redefine's **E-3** environmental issuer profile score reflects the company's physical climate and carbon transition risks. Redefine has a diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, real estate companies' exposure to physical risk is material given our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and their physical asset-intensive business models. In South Africa, significant parts of the population periodically face severe droughts. As climate change intensifies, water scarcity is likely to become increasingly constraining. Exposure to carbon regulation is growing as more jurisdictions establish emission and energy-efficiency guidelines. A property's environmental footprint (parameters such as energy efficiency, water usage, waste management and indoor environment quality) could influence leasing outcomes because tenants are becoming more sensitive to the green attributes of their leased spaces.

Social

Redefine's social issuer profile score of **S-3** reflects that demographic and societal trends are moderately negative due to risks related to labor and income. South Africa has one of the highest levels of income inequality, very high unemployment especially amongst the young. Demographic changes and affordability are important factors driving demand, and changes in these areas could moderately affect the risks that real estate companies face. However, we recognize that Redefine's real estate investments outside of South Africa, particularly in Poland, provide an offset to the exposure to South Africa.

Governance

Redefine's governance issuer profile score of **G-2** reflects Moody's view that one of Redefine's key performance indicators is to maintain the LTV ratio at 40% or below. In addition, Redefine has a good track of addressing debt maturities well ahead of time. In South Africa, a REIT must pay a minimum of 75% of distributable income in dividends to retain its status and we consider this to be a high payout limiting organic cash preservation. As a result, the REIT status limits the company's ability to retain cash and requires it to maintain access to external sources of capital to support its business and repay debt. However, the JSE requirement to distribute at least 75% of distributable income is subject to the solvency and liquidity requirements of the South African Companies Act. It therefore follows that Redefine's REIT status will not be impacted by distributing less than 75% of total distributable profits in any given year, if the reason for this is to meet the solvency and liquidity requirements imposed by the South African Companies Act.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Redefine's liquidity is sufficient to meet its obligations over the next 12-18 months, supported by cash on balance sheet of ZAR2.1 billion and undrawn committed facilities of ZAR3.8 billion as of 30 November 2023 as well as Moody's expected funds from operations of around ZAR3.5 billion for FY2024 and committed disposals. This is sufficient to cover capital spending of ZAR1.2 billion and ZAR5.8 billion of debt maturing in the next 12 months as of 31 August 2023 not assuming any refinancing. Redefine intends to pay dividends of at least 75% of distributable income in line with South Africa's REIT status requirements which will represent about ZAR3.0 billion in the next 12 months.

Rating methodology and scorecard factors

The principal methodology used in these ratings was the REITs and Other Commercial Real Estate Firms rating methodology published in February 2024. The Scorecard-Indicated Outcome is Baa3 while the actual assigned rating is Ba2. The two notches difference reflects the company's credit profile exposure to the challenging macroenvironment of South Africa, which is not fully captured by the grid.

Exhibit 7

Rating factors

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current FY 08/31/2023		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billion)	5.3	Baa	5.3 - 5.4	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	A	A	A	A
b) Operating Environment	Ba	Ba	Ba	Ba
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	36%	B	35% - 36%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	42%	Baa	41% - 42%	Baa
b) Net Debt / EBITDA	6.6x	Ba	6.2x - 6.3x	Ba
c) Secured Debt / Gross Assets	31%	B	30% - 31%	B
d) Fixed Charge Coverage	2.3x	Ba	2.2x - 2.3x	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba2

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Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
REDEFINE PROPERTIES LIMITED	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured MTN -Dom Curr	(P)Ba2
Other Short Term -Dom Curr	(P)NP
NSR Corporate Family Rating	Aa2.za
NSR Senior Unsecured MTN	Aa2.za
NSR ST Issuer Rating	P-1.za
NSR Other Short Term	P-1.za

Source: Moody's Investors Service

Appendix

Exhibit 9
Peer comparison

(in $ billions)	Redefine Properties Limited Ba2 Stable FYE Aug-21	FYE Aug-22	FYE Aug-23	Growthpoint Properties Limited Ba2 Stable FYE Jun-21	FYE Jun-22	FYE Jun-23	Fortress Real Estate Investments Limited Ba2 Stable FYE Jun-21	FYE Jun-22	FYE Jun-23	Arabian Centres Company Ba3 Stable FYE Mar-21	FYE Mar-22	LTM Mar-23
Gross Assets	5.2	5.4	5.3	10.8	10.1	9.1	3.2	2.9	2.9	5.4	5.6	7.0
Unencumbered Assets / Gross Assets	38%	34%	36%	36%	33%	33%	27%	29%	40%	68%	71%	71%
Gross Debt / Gross Assets	41%	41%	42%	42%	39%	41%	36%	40%	35%	54%	55%	43%
Net Debt / EBITDA	5.7x	6.1x	6.6x	6.5x	6.5x	6.2x	7.2x	6.5x	5.4x	7.7x	8.1x	7.3x
Secured Debt / Gross Assets	28%	34%	31%	26%	25%	28%	31%	30%	27%	25%	13%	13%
Fixed Charge Coverage	2.0x	2.4x	2.3x	3.0x	3.1x	2.5x	2.4x	2.7x	2.3x	2.6x	2.3x	2.3x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.
Source: Moody's Investors Service

Exhibit 10
Moody's-Adjusted Debt reconciliation

(in ZAR millions)	2019	2020	2021	2022	2023
As Reported Debt	**41,186**	**36,795**	**30,856**	**37,778**	**40,620**
Operating Leases	265	0	0	0	0
Non-Standard Adjustments	1,056	2,253	0	0	1,054
Moody's-Adjusted Debt	**42,507**	**39,048**	**30,856**	**37,778**	**41,675**

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Source: Moody's Investors Service

Exhibit 11
Moody's-Adjusted EBITDA reconciliation

(in ZAR millions)	2019	2020	2021	2022	2023
As Reported EBITDA	**6,318**	**-7,579**	**6,090**	**11,237**	**4,784**
Operating Leases	27	0	0	0	0
Unusual	-7	12,733	-715	-3,483	1,945
Non-Standard Adjustments	574	266	-196	-1,868	-507
Moody's-Adjusted EBITDA	**6,911**	**5,420**	**5,178**	**5,887**	**6,222**

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Source: Moody's Investors Service

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