GCR GLOBAL CREDIT RATING CO.
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Hospitality Property Fund Limited
R810m Senior Secured Notes

South Africa Secured Bond Analysis – Surveillance Report **15 November 2018**

Security Class	Amount	Rating Scale	Rating	Outlook	Review Date
HPF06	R60m	National	$AA_{(ZA)}$	Stable	15 November 2019
HPF09	R150m	National	$AA_{(ZA)}$	Stable	15 November 2019
HPF11	R600m	National	$AA_{(ZA)}$	Stable	15 November 2019

Key counterparties:

Issuer/Borrower: Hospitality Property Fund Limited ("HPF")
Security SPV/Debt Guarantor: Hospitality Guarantee SPV (RF) (Pty) Limited
Obligors: HPF Properties (Pty) Limited; Fezisource (Pty) Limited; Cullinan Hotel (Pty) Limited; Merway Fifth Investments (Pty) Limited
Noteholder Trustee and Enforcement Agent: TMF Corporate Services (South Africa) (Pty) Ltd ("TMF")
Calculation/Settlement/Transfer Agent/Dealer Arranger/Sponsor: Rand Merchant Bank ("RMB")

Summary of transaction:

Asset class	Senior Secured Notes
LT senior unsecured rating of Issuer	'$A-_{(ZA)}$' / '$A1-_{(ZA)}$' Positive Outlook
Status	Senior secured by real estate assets
OMV of Secured Properties	R9.0bn
Interest payment frequency	Quarterly
Cross default applicable	Yes
Early redemption possible	Yes
Listing	Yes, JSE
Closing date	28 April 2017

Capital structure:

Tranche	Amount	Interest rate 3M JIBAR +	Maturity date
HPF06	R60m	2.80%	20 Feb'20
HPF09	R150m	2.25%	15 Apr'19
HPF11	R600m	1.95%	31 Mar'23

Ratings history

Stock code	Initial Rating	LT rating	ST rating	Rating outlook
HPF06	18 Feb'15	$A_{(ZA)}$	N.a.	Stable
HPF09	18 Apr'16	$A_{(ZA)}$	N.a.	Stable
HPF11	19 Feb'18	$AA-_{(ZA)}$	N.a.	Stable

Stock code	Last rating	LT rating	ST rating	Rating outlook
HPF06	19 Feb'18	$AA-_{(ZA)}$	N.a.	Stable
HPF09	19 Feb'18	$AA-_{(ZA)}$	N.a.	Stable
HPF11	19 Feb'18	$AA-_{(ZA)}$	N.a.	Stable

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Transaction Summary

Global Credit Ratings ("GCR") has upgraded the *final*, *public* long-term credit ratings of the R810m HPF06, HPF09 and HPF11 Senior Secured Notes (the "Notes") issued by Hospitality Property Fund Limited ("HPF" or "the Issuer"), under its R5bn Domestic Medium-Term Note ("DMTN") Programme ("the Programme"), to '$AA_{(za)}$' from '$AA-_{(za)}$', with a Stable outlook.

It is important to highlight that only the Notes are rated; not the Programme. The ratings accorded to the Senior Secured Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The ratings exclude an assessment of the ability of the Issuer to pay any (early repayment) penalties. The ratings of the Notes differ from the ratings of the senior unsecured debt of the Issuer as they reflect loss severity, i.e., recoverability in the event of default.

Rating Panel Highlights

- HPF is South Africa's largest multi-brand hotel group and is the only specialised hospitality Real Estate Investment Trust ("REIT") listed on the Johannesburg Stock Exchange ("JSE"). The Tsogo Sun Holdings Limited group ("Tsogo") acquired a controlling share of HPF in FY17. The subsequent Tsogo acquisitions strengthened HPF's credit profile and increased its portfolio scale by adding 39 established and ungeared properties to HPF. HPF's portfolio now includes 53 properties with a combined Open Market Value ("OMV") of R12.18bn at 31 July 2018.
- To date, the Issuer has ceded the vast majority of its property portfolio (46 properties, with an aggregated Open Market Value ("OMV") of R9.0bn) as collateral backing the issue of structurally enhanced debt under the DMTN Programme. The mortgage bonds in respect of all of the ceded properties were registered in favour of the Security SPV. Additionally, all related rights to and interests in the ceded properties, including bank accounts and insurance proceeds, were ceded *in securitatem debiti* to the Security SPV, which may realise this security for the benefit of the Issuer's secured creditors, including the secured Noteholders. Despite the recent (February 2018) addition of four properties to the collateral pool, implying that the pool has grown from 42 properties to 46 properties since GCR's last rating action (also February 2018), the aggregate OMV decreased by R190m over the period March 2017 (previous valuation date) to July 2018 (current valuation date). All portfolio properties are valued annually and independently by Excellerate Real Estate Services (Pty) Limited.
- HPF's structurally enhanced debt amounted to R1.86bn at 30 September 2018, comprising the Notes as well as secured debt facilities with The Standard Bank of South Africa ("SBSA"). As such, the Loan to Value ratio ("LTV") in respect of the secured utilised debt is 20.57%, which is lower than the financial covenant LTV of 45%. GCR's recovery scenarios and resultant rating assume that the Issuer issues secured debt up to the maximum LTV covenant of 45%.
- HPF is in the process of adding four further properties to the collateral pool, such that, post this development, the aggregate security pool OMV is expected to increase by R2.7bn to R11.7bn. GCR did not take these four additional properties into account and its recovery rate model is based on the existing collateral pool of properties.
- GCR notes that HPF is exposed to some refinancing risk in the coming half-year, as the R150m HPF09 Notes mature in April 2019. However, HPF has sufficient available and undrawn credit facilities in place with SBSA (amounting to R500m) to settle these Notes.
- The ratings of the Notes are derived by applying a notching-up approach, starting from the long-term senior unsecured corporate credit rating of the Issuer.
- In September 2018, GCR upgraded the Issuer's rating from '$BBB+_{(ZA)}$' to '$A-_{(ZA)}$' and maintained a 'Positive' outlook. Seeing as GCR still deems a rating uplift of four national scale notches appropriate for the Notes, given the '*Excellent Recovery Prospects*' modelled, the ratings of the Notes have forthwith been upgraded. However, a Stable outlook was accorded to the ratings of the Notes. Following the recent announcement of the withdrawal of the proposal for the disposal of a portfolio of seven mixed-use casino properties from Tsogo to HPF, no material change to the factors underlying the rating is immediately foreseen.
- Should the overall recovery prospects or the rating accorded to the Issuer change, the ratings of the Notes may also change.

GCR analysed the Transaction by applying its:
Global Structurally Enhanced Corporate Bonds Rating Criteria (Nov'17), Global Criteria for Rating Property Funds (Feb'18) and Global Master Criteria for Rating Corporate Entities (Feb'18); with reference to its HPF Corporate Rating Report (Sep '18) and its HPF Senior Secured Notes New Issuance Report (Feb'18).

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

Introduction

HPF has R810m of Notes in issue under its R5bn DMTN Programme. The Issuer also has R1.55bn available in secured funding facilities with SBSA, of which R1.05bn has been drawn down, which share the same collateral as the Notes.

HPF's scale has grown significantly over the past two years, underpinned by large property acquisitions following HPF's takeover by Tsogo (the largest hotel and gaming operator on the JSE) as controlling shareholder, with a 59.6% stake as at July 2018.

GCR's September 2018 upgrade of the corporate rating of HPF acknowledges its acquisition-driven growth and portfolio diversification, along with its conservative and improving financial profile. The upgrade of the ratings of HPF's Notes follows from the corporate upgrade, as per GCR's notching-up approach, as further explained later in this report.

The vast majority of the properties acquired from Tsogo thus far have been ceded as collateral in respect of the DMTN Programme and therefore form part of the shared security pool for the benefit of the Issuer's secured creditors, including Senior Secured Noteholders. Since the publication of GCR's New Issuance Report of February 2018, four properties were added to the collateral pool, such that, to date, the Issuer has ceded 46 properties, with an aggregate OMV of R9.0bn. As of February 2018, a Security Cession of all related rights to and interests in all such properties, including insurance proceeds and bank accounts, has been executed. GCR notes that a Pledge and Cession of the shares in The Cullinan (Pty) Ltd and Merway Fifth Investments (Pty) Ltd, holders of many of the properties in the collateral pool, subsidiaries of HPF and Obligors under the Security Sharing Agreement, has not taken place. Such Pledge did occur previously in respect of the shares of the other two Obligors and property holding companies - HPF Properties (Pty) Ltd and Fezisource (Pty) Ltd. GCR deems the absence of the abovementioned Pledge and Cession as immaterial as GCR models recoveries relying solely on the abovementioned Security Cession.

HPF is in the process of adding four further properties to the collateral pool, such that, post this development, the aggregate security pool OMV is expected to increase by R2.7bn to R11.7bn. These properties are expected to be registered in favour of the Guarantee SPV in December 2018. GCR did not take these four additional properties into account and its recovery rate model is based on the existing collateral pool of properties.

For an overview of the collateral property portfolio, please refer to *Appendix A*.

The DMTN Programme allows the Issuer to issue a wide variety of securities with different maturities and risk profiles. Please refer to GCR's Hospitality New Ratings Report – February 2018 for further detail on the Programme, the security arrangements, Events of Default, key Transaction counterparties, collections procedures and a Transaction diagram.

Rating Methodology of the Notes

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

GCR was provided with OMVs of the properties in the collateral pool based on 31 July 2018 valuations. These values were utilised to estimate the recoveries on the collateral should an Event of Default occur and an Enforcement Notice be issued by the Security SPV.

The aggregate amount of debt outstanding was assumed to be the maximum possible debt drawdown up to the financial covenant LTV of 45%. This approach takes cognisance of the secured but unrated debt that the Issuer may issue in accordance with the Transaction Documents and mitigates against potential movements in the ratings of the Notes in the event of further such debt issuances. Actual current utilised debt stands at only R1.86bn, or 20.57% LTV.

With a collateral pool OMV of R9.0m, maximum possible debt uptake subject to the LTV covenant of 45% amounts to R4.07bn, which, as mentioned, is the principal amount of secured debt that GCR assumes to be outstanding upon default. GCR also assumes an accrual of interest over a certain period of time prior to any recoveries being realised on the collateral properties. The properties are assumed to be eventually sold at a discount to their market value, with the proceeds from such sale used to pay the Issuer's obligations in respect of interest and principal on the aggregate outstanding debt. For more details, please see *Appendix B.*

Recovery rate calculations	Rands
Principal amount outstanding upon default (at maximum possible debt drawdown, i.e., covenant-level)*	4,069,425,150
Assumed missed interest upon default	112,282,941
Assumed missed interest to give time to realise recoveries	726,090,614
Aggregate exposure Senior Noteholders	4,907,798,705
Assumed recoveries on sale of properties	(4,153,060,300)
Assumed recoveries on rentals	(455,801,191)
Assumed sales and legal costs	193,978,979
Unsecured claim on Issuer	492,916,193
Assumed recovery on unsecured claim	0
Remaining claim	492,916,193
Overall estimated recovery rate	90.0%

* Covenant LTV = 45%. Actual current LTV = 20.57%.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 90.0% carries the description '*Excellent Recovery Prospects*'. Resultantly, a four-national scale notch rating uplift is deemed to be appropriate. Accordingly, GCR has accorded a *final*, *public* rating of 'AA(ZA)' with a 'Stable' outlook to the Notes.

Legal Opinion

GCR received legal opinions prepared by Transaction legal counsel Bowman Gilfillan in April and May 2017, in respect of amendments to the DMTN Programme. In addition, GCR also received a legal opinion prepared by Bowman Gilfillan in respect of the new issuance of the HPF11 Notes under the Programme in February 2018.

Please refer to GCR's Hospitality New Ratings Report – February 2018 for further detail on these legal opinions.

Rating Considerations

Meaning of the Rating of the Notes

The ratings accorded to the Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The ratings exclude an assessment of the ability of the Issuer to pay any (early repayment) penalties.

The ratings of the Notes incorporate recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter is also an expression of expected loss, but refers to probability of default).

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

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

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

Rating Criteria Application

GCR analysed the Transaction by applying its Global Structurally Enhanced Corporate Bonds Rating Criteria (November 2017), its Global Criteria for Rating Property Funds (February 2018) and its Global Master Criteria for Rating Corporate Entities (February 2018); with reference to its HPF Corporate Rating Report (September 2018) and its HPF Notes New Issuance Report (February 2018). The Criteria are freely available at www.globalratings.net.

Transaction Documents

GCR received copies of all executed and signed Transaction documents relating to the Notes and the DMTN Programme.

Other

Valuation Reports

GCR received independent property valuation reports relating to the secured properties. The valuations were conducted by Excellerate Real Estate Services (Pty) Limited at 31 July 2018, and were sourced from the Issuer.

Disclaimer

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

Appendix A: Overview of Properties that Serve as Security for the Notes, amongst other Secured Obligations

Security Properties	**Property Owner***	**Location**	**Latest OMV as at 31 July 2018 (R'000)**
Holiday Inn, Sandton	HPF Properties (Pty) Ltd	Gauteng	356,280
Kopanong Hotel & Conference Centre, Benoni	HPF Properties (Pty) Ltd	Gauteng	78,170
Rosebank Crowne Plaza	HPF Properties (Pty) Ltd	Gauteng	365,134
Champagne Sports Resort, Drakensburg	HPF Properties (Pty) Ltd	Kwa-Zulu Natal	303,490
Mount Grace Country House & Spa	HPF Properties (Pty) Ltd	Gauteng	147,500
Protea Hotel, Hazyview	HPF Properties (Pty) Ltd	Mpumalanga	74,910
Protea Victoria Junction Hotel	HPF Properties (Pty) Ltd	Western Cape	226,384
Birchwood Hotel & Conference Centre, Boksburg	HPF Properties (Pty) Ltd	Gauteng	786,589
Protea Hotel Marine, Port Elizabeth	HPF Properties (Pty) Ltd	Eastern Cape	95,050
Radisson Blu Gautrain Hotel	HPF Properties (Pty) Ltd	Gauteng	616,800
Garden Court - Kimberley	Fezisource (Pty) Ltd	Northern Cape	127,700
Garden Court - Milpark	Fezisource (Pty) Ltd	Gauteng	279,370
Garden Court - OR Tambo	Fezisource (Pty) Ltd	Gauteng	328,540
Garden Court - Polokwane	Fezisource (Pty) Ltd	Limpopo	276,740
Garden Court - South Beach	Fezisource (Pty) Ltd	Kwa-Zulu Natal	612,450
Stay Easy - Century City	Fezisource (Pty) Ltd	Western Cape	265,480
Stay Easy - Rustenburg	Fezisource (Pty) Ltd	North West	120,100
Sun Square - Cape Town	Fezisource (Pty) Ltd	Western Cape	101,800
Southern Sun - Newlands	Fezisource (Pty) Ltd	Western Cape	153,310
Southern Sun Cullinan	The Cullinan (Pty) Ltd	Western Cape	955,273
Southern Sun Waterfront	The Cullinan (Pty) Ltd	Western Cape	1,030,437
Southern Sun Katherine Street	The Cullinan (Pty) Ltd	Gauteng	96,500
Garden Court Morningside	The Cullinan (Pty) Ltd	Gauteng	134,490
Garden Court Hatfield	The Cullinan (Pty) Ltd	Gauteng	205,890
Garden Court Eastgate	The Cullinan (Pty) Ltd	Gauteng	97,260
Stay Easy Eastgate	The Cullinan (Pty) Ltd	Gauteng	59,590
Garden Court Kings Beach	The Cullinan (Pty) Ltd	Eastern Cape	214,100
Sun 1 Alberton	Merway Fifth Investments (Pty) Ltd	Gauteng	65,915
Sun 1 Benoni	Merway Fifth Investments (Pty) Ltd	Gauteng	25,547
Sun 1 Berea	Merway Fifth Investments (Pty) Ltd	Gauteng	33,235
Sun 1 Bloemfontein	Merway Fifth Investments (Pty) Ltd	Free State	37,899
Sun 1 Cape Town	Merway Fifth Investments (Pty) Ltd	Western Cape	60,389
Sun 1 Edenvale	Merway Fifth Investments (Pty) Ltd	Gauteng	11,904
Sun 1 Kimberley	Merway Fifth Investments (Pty) Ltd	Northern Cape	28,716
Sun 1 Midrand	Merway Fifth Investments (Pty) Ltd	Gauteng	79,841
Sun 1 Milnerton	Merway Fifth Investments (Pty) Ltd	Western Cape	69,329
Sun 1 Nelspruit	Merway Fifth Investments (Pty) Ltd	Mpumalanga	53,722
Sun 1 OR Tambo	Merway Fifth Investments (Pty) Ltd	Gauteng	34,022
Sun 1 Parow	Merway Fifth Investments (Pty) Ltd	Western Cape	58,877
Sun 1 Port Elizabeth	Merway Fifth Investments (Pty) Ltd	Eastern Cape	70,619
Sun 1 Pretoria	Merway Fifth Investments (Pty) Ltd	Gauteng	115,628
Sun 1 Richards Bay	Merway Fifth Investments (Pty) Ltd	Kwa-Zulu Natal	20,958
Sun 1 Southgate	Merway Fifth Investments (Pty) Ltd	Gauteng	88,466
Sun 1 Vereeniging	Merway Fifth Investments (Pty) Ltd	Gauteng	14,401
Sun 1 Witbank	Merway Fifth Investments (Pty) Ltd	Mpumalanga	24,978
Sun 1 Wynberg	Merway Fifth Investments (Pty) Ltd	Gauteng	39,384
Total			**9,043,169**

Source: HPF

* HPF Properties, Fezisource, The Cullinan and Merway Fifth Investments are subsidiaries of HPF.

Appendix B: Recovery Rate Calculations Relating to the Security for the Notes

1. Principal Amount Outstanding upon Default

The current debt outstanding and available credit facilities secured by the collateral pool are summarised in the table below.

Security Class	Amount (R)	Margin*	Maturity Date
Senior Secured Notes HPF06	60,000,000	3M JIBAR + 2.80%	20 February 2020
Senior Secured Notes HPF09	150,000,000	3M JIBAR + 2.25%	15 April 2019
Senior Secured Notes HPF11	600,000,000	3M JIBAR + 1.95%	31 March 2023
SBSA Facility A	550,000,000	3M JIBAR + 1.78%	31 July 2020
SBSA Facility B	500,000,000	3M JIBAR + 1.98%	31 July 2022
Total Secured Debt Outstanding	**1,860,000,000**		
SBSA Revolving Credit Facility	500,000,000[#]	Prime - 1.70%	31 July 2020
Total Available Secured Debt Outstanding and Facilities Available	**2,360,000,000**		

* An additional 2% default interest is applicable on the SBSA secured facilities.

[#] The Revolving Credit Facility is made available to the Issuer by SBSA. However, the Issuer has currently not drawn any amounts in respect of this facility.

The principal amount outstanding includes all secured debt, including secured facilities, which benefits from the security provided by the collateral pool. GCR notes that the principal amount outstanding can potentially change over the life of the Notes, given that the Issuer may draw down on further secured facilities or issue further secured notes, albeit with the limitation that the aggregate secured debt shall not exceed 45% of the OMV of the secured portfolio, as per the LTV covenant. It is assumed that the Issuer defaults prior to the legal Maturity Date of the Notes. In light of the limit imposed by LTV covenant, GCR assumes that upon default, the Issuer will have drawn down the maximum possible amount of debt (including fully-drawn facilities), which is equivalent to 45% of the aggregate portfolio OMV.

2. Assumed Missed Interest Payments upon Default

GCR assumes that, should the Issuer default, the last quarterly coupon is not paid. In addition, interest payments during the assumed period of 18 months taken to realise recoveries are calculated and capitalised to the balance owing to secured creditors. Given the maturity profile of the facilities secured by the assets, GCR used the five-year swap rate (8.02% at 5 November 2018) as the reference rate for the interest payable. GCR incorporated the default interest rate of 2% applicable to the secured facilities in determining the weighted average margin to be applied for the recovery calculation. The weighted average margin of all currently outstanding debt (including fully drawn secured facilities), was determined to be 3.02% and was added to the reference rate to obtain the assumed interest rate of 11.04% per annum. This assumed interest rate was applied to all outstanding debt in the recovery calculation.

3. Assumed Recoveries on Sale of Properties

GCR assumes that, 18 months after the occurrence of a default, all of the secured properties are sold through an auction process in order to realise recovery proceeds that will be used to repay secured creditors. The starting point for the recovery analysis is the OMV of the properties (which were independently valued as at July 2018). Valuations were conducted by Excellerate Real Estate Services (Pty) Limited according to the definition of market value laid out in the International Valuations Standards and the RICS Appraisals and Valuation Standards. The following factors were considered in determining appropriate haircuts to be applied to the property values in order to derive a stressed sales value for the portfolio of secured properties:

Haircut calculations		
Average Historical Occupancy		**Score**
High	>=60%	3
Medium	>=48%	2
Low	<48%	1
Lease Contract Terms		
Favourable	Fixed Leases	3
Less favourable	Fixed and Variable Leases	2
Least favourable	Variable Leases	1
Geographic Location		
Major	City centre, affordable, prime location, however locations are not as economically active as metropolitans	2
Rural	Resorts subject to seasonal cyclicality	1

Haircuts per total score	
9	**45%**
8	**50%**
7	**55%**
6	**60%**
5	**65%**
4	**70%**
3	**75%**
2	**80%**
1	**85%**

In order to derive the individual stressed property values, GCR applied haircuts that are dependent on the scores achieved for each of the three factors summarised in the table above and described further below:

a) Occupancy – Statistical analysis was conducted on the historical occupancy observed for each hotel property, owing to the occupancy levels being a key measure of performance in the industry and a key indicator of potential future income flows, which are incorporated into the property valuations.

b) Contract terms –Fixed lease contracts were determined to be the most favourable, as all performance risk is borne by the tenant, who is obligated to pay a fixed rental amount regardless of occupancy. The introduction of variable elements to the lease agreements creates uncertainty regarding income flows, particularly noting the seasonality prevalent in the hospitality industry.

c) Geographic location – GCR incorporated additional stresses to capture the impact of location on demand and property value, taking account of proximity to places of interest (e.g. business hubs/airport) and exposure to cyclicality.

Based on the haircuts determined as per the above criteria, the stressed property values assumed for the secured portfolio are summarised in the table below.

Security Properties	Latest OMVs as at 31 March 2018 (R'000)	Stressed Property Value (GCR) (R'000)
Holiday Inn, Sandton	356,280	178,140
Kopanong Hotel & Conference Centre, Benoni	78,170	27,360
Rosebank Crowne Plaza	365,134	164,310
Champagne Sports Resort, Drakensburg	303,490	106,222
Mount Grace Country House & Spa	147,500	51,625
Protea Hotel, Hazyview	74,910	29,964
Protea Victoria Junction Hotel	226,384	113,192
Birchwood Hotel & Conference Centre, Boksburg	786,589	314,636
Protea Hotel Marine, Port Elizabeth	95,050	42,773
Radisson Blu Gautrain Hotel	616,800	308,400
Garden Court - Kimberley	127,700	57,465
Garden Court - Milpark	279,370	125,717
Garden Court - OR Tambo	328,540	164,270
Garden Court - Polokwane	276,740	124,533
Garden Court - South Beach	612,450	306,225
Stay Easy - Century City	265,480	119,466
Stay Easy - Rustenburg	120,100	48,040
Sun Square - Cape Town	101,800	50,900
Southern Sun - Newlands	153,310	68,990
Southern Sun Cullinan	955,273	477,637
Southern Sun Waterfront	1,030,437	515,219
Southern Sun Katherine Street	96,500	48,250
Garden Court Morningside	134,490	67,245
Garden Court Hatfield	205,890	92,651
Garden Court Eastgate	97,260	38,904
Stay Easy Eastgate	59,590	23,836
Garden Court Kings Beach	214,100	85,640
Sun 1 Alberton	65,915	29,662
Sun 1 Benoni	25,547	10,219
Sun 1 Berea	33,235	13,294
Sun 1 Bloemfontein	37,899	15,160
Sun 1 Cape Town	60,389	30,195
Sun 1 Edenvale	11,904	4,166
Sun 1 Kimberley	28,716	11,486
Sun 1 Midrand	79,841	35,928
Sun 1 Milnerton	69,329	31,198
Sun 1 Nelspruit	53,722	24,175
Sun 1 OR Tambo	34,022	13,609
Sun 1 Parow	58,877	26,495
Sun 1 Port Elizabeth	70,619	31,779
Sun 1 Pretoria	115,628	52,033
Sun 1 Richards Bay	20,958	8,383
Sun 1 Southgate	88,466	35,386
Sun 1 Vereeniging	14,401	5,040
Sun 1 Witbank	24,978	7,493
Sun 1 Wynberg	39,384	15,754
Total	**9,043,169**	**4,153,060**

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

From a legal perspective, the Security SPV can collect rentals from the tenants upon enforcement of the Security Cession and until the properties are sold.

GCR was provided with per-property income and expense information for the period spanning May 2014 to September 2018. This information was used as a basis for estimating rental cash flows during the 18-month enforcement period. The following assumptions were used to determine the aggregate rental recoveries:

- No rental income is assumed in the first six months of the enforcement period. GCR assumes that upon a potential default of the Issuer, the first six months' rental collections are lost while enforcement proceedings are carried out. These six months of lost rental collections incorporate the possibility of business rescue proceedings, whereby a business rescue practitioner may delay enforcement of the Security Cession by the Enforcement Agent.
- No rental escalations were assumed during the 18-month period - a conservative assumption based on the cyclicality of the South African tourism sector.

The annual stressed net rental income per property equates to the assumed recovery on rentals and incorporates the deduction of a half-standard deviation from the average rental flows calculated based on the historical data provided.

5. Assumed Sales and Legal Costs

GCR applied 5% auction cost to the stressed value of the properties, which is deducted from the proceeds realised on the property sale. In addition, a 10% rental collection stress is assumed to be paid to a collection agent who will represent the Security SPV and manage rental collections during the enforcement period, with a further 3% applied for legal expenses related to collections.

6. Remaining Claim

GCR assumes that there will be no recoveries on the unsecured claim.

GCR emphasises that should the Issuer issue more Notes or dispose of more secured properties, the Transaction and the accompanying security pool will be re-assessed to gauge the potential rating impact.

As mentioned above, GCR utilised the maximum LTV level of debt to determine the estimated recovery prospects from the secured property pool. However, it is noted, as previously mentioned, that an aggregate R2.36bn is currently outstanding, including the assumption of fully drawn down term facilities. GCR notes that modelled expected recoveries in the currently existing scenario are well in excess of 100%.

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

Administrator	A transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Arranger	Usually an Investment bank that advises and constructs a transaction and acts as a conduit between the transaction parties: Client, Issuer, Credit Rating Agency, Investors, Legal Counsel and Servicers.
Asset	An item with economic value that an entity owns or controls.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Business Rescue	A term under the Companies Act 71 of 2008 (South Africa) Chapter 6 to remedy an entity that is likely to become insolvent. Entities that are likely to become insolvent (where liabilities exceed assets) or unlikely to be able to pay their debts as they fall due and payable in the coming six months.
Capital	The sum of money that is used to generate proceeds.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Claim	A formal request or demand.
Collateral	An asset pledged as security in event of default.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
Coupon	Interest payment on a security.
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	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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 Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Creditor	A credit provider that is owed debt obligations by a debtor.
Debt	An obligation to repay a sum of money.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Drawdown	When a company utilises facilities availed by a lender.
Early Redemption	The repurchase of a bond by the issuer before it matures.
Enforcement	To make sure people do what is required by a law or rule et cetera.
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.
Guarantee	An undertaking for performance of another's obligations in event of default.
Guarantor	A party that gives the guarantee.
Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to the realised value relative to the fair value.
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Issuer	The party indebted or the person making repayments for its borrowings.
Lease	Agreement or temporary use and enjoyment of a corporeal thing (movable or immovable property) the whole or part thereof for rent. The essential elements of a contract of lease are: 1.) Undertaking of lessor to give the lessee the use and enjoyment of something; 2.) Agreement between the lessor and lessee that the lessee's right to use and enjoyment is temporary; and 3.) Lessee's undertaking to pay a sum or rent.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.

National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Notching	A movement in ratings.
Noteholder	Investor of capital market securities.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Pledge	Constituted by an agreement between the pledgor, who undertakes to deliver the article, and the pledgee, and subsequent delivery of the property in question as security for debt. A pledge is only applicable to movable property.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.
Rated Securities	Debt securities that have been accorded a credit rating.
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	Property that consists of land and / or buildings.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Redemption	The repurchase of a bond at maturity by the issuer.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Refinance	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.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Secured Creditor	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Securities	Various instruments used in the capital market to raise funds.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Senior	A security that has a higher repayment priority than junior securities.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for the payment in the event of default.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Standard Deviation	An indication of risk amongst the dispersion of values. Higher value indicates greater risk.
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 whist reducing risk.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Swap	An agreement between two parties for the exchange of a series of future cash flows. The exchange of one security for another. Normally an investment bank, which provides a swap.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Unsecured Claim	Debt securities that have no collateral.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings 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 written correspondence. The quality of information received was considered adequate and has been independently verified where possible.

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

The credit ratings have been disclosed to the Issuer.

The information received from the Arranger and other reliable third parties to accord the credit ratings included:

- An overview of the income and expenses for each property in the secured portfolio up to 30 September 2018
- Occupancy and rental rates per property for the period ending 30 September 2018
- The Open Market Valuation Reports for the secured properties at 31 July 2018