MOODY'S
INVESTORS SERVICE

ANALYSIS

Hyprop Investments Limited

Johannesburg, South Africa

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This Analysis provides an in-depth discussion of credit rating(s) for Hyprop Investments Limited and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Key Rating Drivers

- » High-quality retail portfolio with historically low vacancy rates
- » Low leverage and coverage metrics
- » Smaller scale and greater income concentration risk than similarly rated real estate peers
- » Execution risk associated with The Mall of Rosebank redevelopment project

Corporate Profile

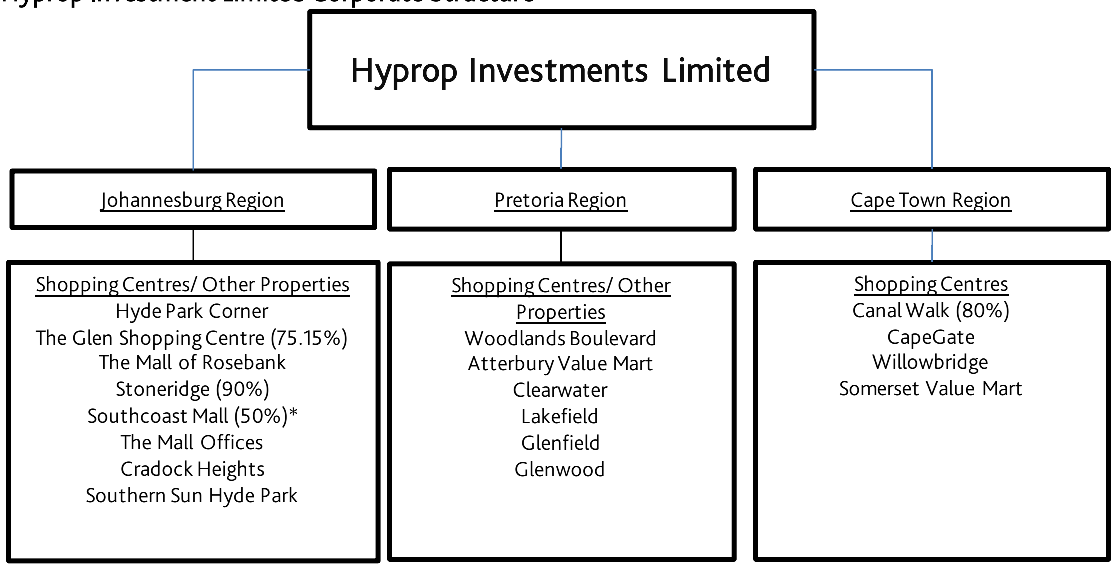
Hyprop Investments Limited (Hyprop or the Fund), was established in 1988 and is the third-largest property fund listed on the Johannesburg Stock Exchange (JSE) in South Africa by total assets (ZAR20.2 billion or $2.5 billion, at year-end December 2011). Hyprop is structured as a property loan stock (PLS) and operates like a real estate investment trust (REIT), investing in and holding commercial properties in a tax-efficient manner for investors. Its activities include direct investments in predominately retail property assets and, to a lesser extent, investments in the listed securities of other commercial property investment companies. The Fund's head office is in Johannesburg, South Africa.

95% of Hyprop's property assets under management are retail properties. The property portfolio includes 12 shopping centres (of which eight are 100% owned and four partially owned through co-ownership agreements) and five office properties. Group management is internal, with 298 staff overseeing 803,345 m² of lettable area. As of 31 December 2011, the Fund's investment in South Africa consisted of 18 properties valued at ZAR17.5 billion ($2.2 billion), together with an investment of ZAR2.2 billion ($270 million) in three listed securities, Sycom Property Fund Limited (39% shareholding), Acucap Properties Limited (1.5% shareholding) and Vunani Property Investment Fund Limited (11.8% shareholding), which has subsequently been sold.

On 1 September 2011, Hyprop Investments Limited acquired all of the shares in issue of Attfund Retail Limited via debt and cash "sweep", doubling total assets under management from ZAR8.5bn to ZAR17.5bn and increasing leverage from 12.6% to 26.2% (Net debt / property assets). In addition, subsequent to the December financial year end Hyprop is in the process of disposing of its 50% investment in the Southcoast Mall to Redefine Properties Limited for ZAR 108.5 million cash, subject to competition commission approval.

Hyprop Investment Limited corporate structure is shown in Exhibit 1, below.

EXHIBIT 1
Hyprop Investment Limited Corporate Structure



100% owned unless stated
** In the process of being disposed to Redefine Properties Limited*

Management Strategy

Management's strategy is to invest in sizable shopping centres in the major metropolitan areas: Johannesburg, Cape Town, Durban and Pretoria, with a primary focus of growing income. Hyprop's investment in shopping centres is focused on those that are dominant in their catchment area, where the vast majority of tenants' revenues are generated locally, making the centres more resilient to downturns in consumer spending and supportive of stable, long-term occupancy rates, rental income and values. The success of this strategy is demonstrated by the maintenance of a high overall occupancy rate over the past few years, currently 96.4% across the retail portfolio despite general economic weakness in South Africa.

The Fund's approach to new developments is conservative, focusing on expanding and rejuvenating the existing portfolio. Management is embarking on a ZAR920 million refurbishment and enlargement project of The Mall of Rosebank, which will increase the gross lettable area from 36,000 m2 to 62,000 m2. The estimated time of completion is 2014, although this is still subject to relevant planning approvals from local authorities. While Hyprop's management have proven experience with previous refurbishment/expansion projects this will be the largest to date and will introduce a level of execution risk. At 31 December 2011, Hyprop's development pipeline equated to ZAR202.5 million, representing 1.0% of gross assets. Including the planned expenditure on The Mall of Rosebank the percentage increases to 5.6% of gross assets.

Hyprop has indicated its intention to diversify its property exposure into Africa, which it expects will broaden the Fund's geographic footprint outside of South Africa and be yield enhancing. However, expansion is likely to expose the business to higher risk, which will need to be monitored as this part of the business grows. The initial investment is anticipated to be relatively small and as a result will not have a material effect on the overall Fund's performance in the short to medium term.

Rating Rationale

Hyprop's A3.za/P-2.za national scale rating is supported by the high quality retail portfolio, which benefits from active management producing solid, recurring retail income, supported by low vacancies (4.1% as of 31 December 2011) and well-positioned retail assets. The rating is underpinned by a significantly increased portfolio of properties due to the acquisition of Attfund Retail properties on 1 September 2011.

The ratings incorporate relatively strong credit metrics (according to our standard definitions and adjustments) as measured by total debt-to-gross assets of 27.4% and high fixed-charge cover of 4.3x, at the end of December 2011. The ratings also factor in Hyprop's conservative approach to development risk.

At the same time, the ratings assigned also factor (i) the moderate size of the portfolio and smaller scale of operations relative to local peers, as measured by total assets; (ii) 95% property-exposure to the South African retail property sector, as well as high geographic concentration in the Gauteng province (61% of the total portfolio); (iii) execution risk associated with the refurbishment of The Mall of Rosebank; and (iv) 100% secured debt in its capital structure and the moderate yet high percentage of property assets that are encumbered (75%). All figures are as of year-end December 2011.

Rating Drivers

The principal methodology used in rating Hyprop was our "Approach for REITs and Other Commercial Property Firms", published 30 July 2010. Based on the most recent published accounts, at financial year end 2011, Hyprop's overall performance measurements from the rating grid indicate a rating outcome of mid-Baa, which is within two notches higher than the long-term issuer rating. The key reason why the global long-term issuer rating assigned is lower than the rating grid outcome is the Fund's relatively small scale combined with income concentration risk. Below are some detailed considerations that influence Hyprop's current rating A3.za rating:

EXHIBIT 2

Hyprop Investments Limited [1][2]

Rating Factors

REITs / REOCs	Aaa-Aa	A	Baa	Ba	B	Caa	Ca
Factor 1: Liquidity & Funding							
a) Liquidity Coverage				X			
b) Upcoming Debt Maturities					X		
c) FFO Payout						110%	
d) Amount of Unencumbered Assets					24.8%		
Factor 2: Leverage & Capital Structure							
a) Debt + Preferred / Gross Assets		27.4%					
b) Net Debt / EBITDA [2]			5.0x				
c) Secured Debt / Gross Assets				27.4%			
d) Access to Capital				X			

EXHIBIT 2

Hyprop Investments Limited [1][2]

Rating Factors

REITs / REOCs	Aaa-Aa	A	Baa	Ba	B	Caa	Ca
Factor 3: Market Position & Asset Quality							
a) Franchise / Brand Name			Good				
b) Gross Assets (USD Billion)			$2.5				
c) Diversity - location/tenant/industry/economic					Limited		
d) Development % Gross Assets	1.0%						
e) Asset Quality		Excellent					
Factor 4: Cash Flow & Earnings							
a) EBITDA / Revenues	82.3%						
b) EBITDA Margin Volatility				7.6%			
c) Fixed Charge Cover	4.3x						
d) JV / Fund Business % Revenues	0.0%						
Overall Assessment							
a) Implied Score			mid-Baa				
b) Actual Rating Assigned			A3.za				

[1] Based on financial year end 31 December 2011

[2] 31 December 2011: EBITDA includes 4 months contribution from Attfund Retail. Net debt / EBITDA reduces to 3.7x assuming the full 12 months contribution from Attfund Retail.

Detailed rating considerations

Prime, Well Located Assets With Good Tenant Profile

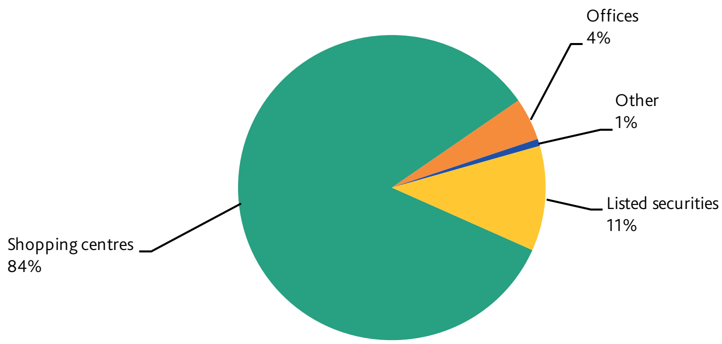
We view Hyprop's asset quality as excellent, supported by the number of the Fund's prime quality shopping centres located in key retail nodes. At year-end December 2011, Hyprop had around 1900 tenants, with the top 10 tenants contributing 28% of annual rental income (41% of gross lettable area (GLA)). The Fund's largest tenant is Massmart, contributing 4% of total annual rental income. Hyprop has a large amount of high-quality tenants, comprising 61% "A" quality tenants, 20% "B" quality tenants and 19% C" quality tenants (by GLA). Tenant classifications are as follows: "A" quality - large national tenants, large listed tenants, government and major franchisees; "B" quality - national tenants, smaller listed tenants, franchisees and medium to large sized professional firms; and "C" quality - smaller tenants

Hyprop's entire property portfolio is independently valued on a semi-annual basis for all properties which is more frequent compared to it local peer group. The valuations are performed using the discounted cash flow method. With the acquisition of Attfund effective 1 September 2011 the property portfolio increased from R8.5 billion to R17.5 billion with the last independent valuations done in December 2011. The next independent valuation will be done in June 2012.

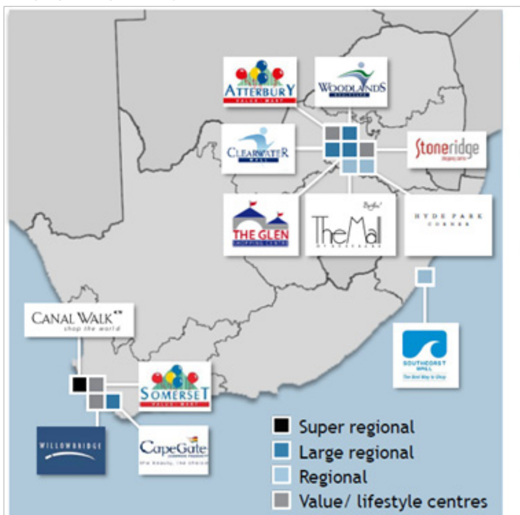
Scale And Concentration Risk Constrain The Rating

Hyprop's scale, as measured by the number and value of its property assets, is relatively small compared with similarly rated peers both in South Africa and globally, which limits diversification. We view Hyprop's diversification as limited in terms of (i) the relatively small number of properties under management; (ii) predominant focus on retail property sector; and (iii) geographic concentration in three major metropolitan areas across South Africa, namely Johannesburg, Pretoria and Cape Town, with the bulk of its property exposure in the Gauteng region (61% of total portfolio value).

EXHIBIT 3
Portfolio Split
Sector Spread by Value



Geographic Spread by Lettable Area



Geographic profile by city

City	Value %	GLA %	No of buildings*
Johannesburg	42%	39%	8
Cape Town	40%	39%	4
Pretoria	17%	18%	5
Other	1%	4%	1

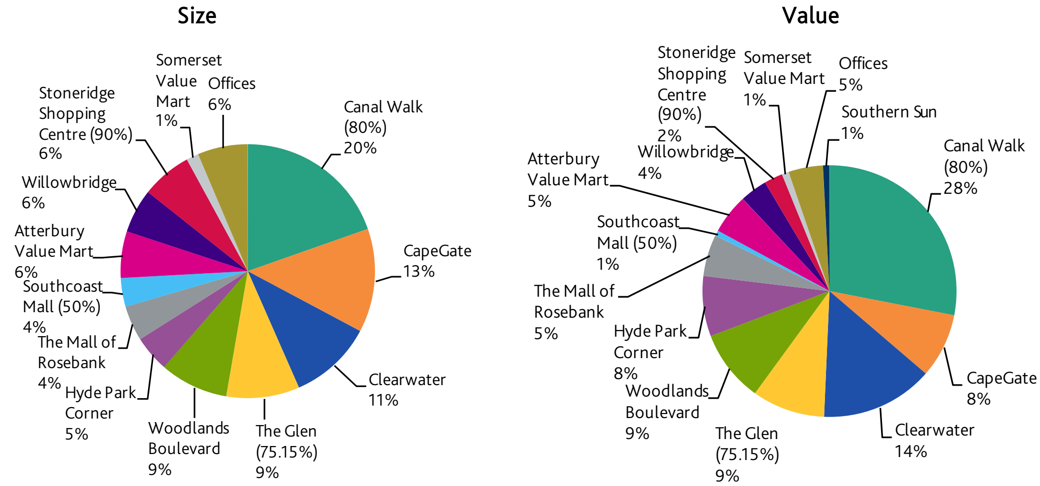
* *Includes Office and Hotel portfolios*

Source: Hyprop Investments Limited (as at 31 December 2011)
Southcoast Mall is in the process of being disposed of to Redefine Properties Limited

EXHIBIT 3

Portfolio Split

Property Split by Lettable Area and Value



Source: Hyprop investments Limited as at 31December 2011

EXHIBIT 4

Listed Investments as at 31 December 2011

	Value (ZAR m)	Interest Held (%)
Sycom Property Fund Ltd	R1,980	39%
Acucap Properties Ltd	R97	1.5%
Vunani*	R99	11.8%
TOTAL	R2,176	

* Sold after 31 December 2011

Hyprop currently has two strategic holdings in listed properties securities, namely Sycom Property Fund Ltd and Acucap Properties Ltd. A brief description of Hyprop's listed investment entities are described below:

» Sycom Property Fund is a closed end property unit trust (PUT) established in 1986. It is governed by the Collective Investment Schemes Control Act, 2002 and is listed on the JSE Securities Exchange South Africa (JSE). The fund consists of investments in 13 properties valued at ZAR5.4 billion with relatively equal weighting in both the retail and commercial office sectors situated in South Africa. The retail exposure comprises investments in regional shopping centers, while the office component consists of large, well located, A-grade office buildings with predominantly large corporate tenants.

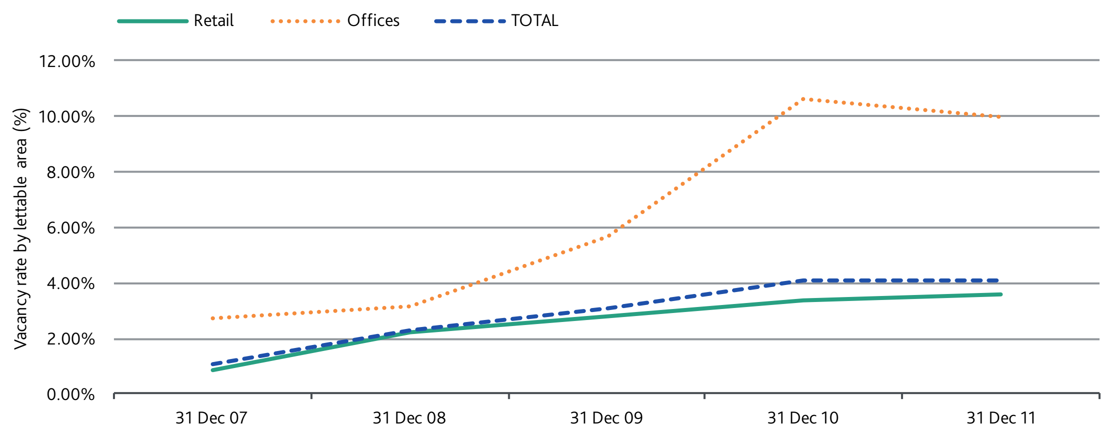
» Acucap Properties Limited is a property loan stock (PLS) company established in 2001 and is listed on the JSE. It invests in prime assets (commercial, retail and industrial) in major urban centres, with a bias towards retail property. The fund consists of 35 properties valued at ZAR6.45 billion spread concentrated in Gauteng and Western Cape (56% and 38% of property assets, respectively).

Cash Generation Sustained By High Occupancy Rates And Long Leases

The stability of Hyprop's cash flow and earnings is credit positive and is due in large part to the Fund's relatively high occupancy rates, currently 95.9% (see Exhibit 5 below) . The Fund's fixed charge coverage at FYE 2011 was strong at 4.3x. In addition, rental income is underpinned by medium- to long-term tenancy agreements, with a weighted average lease expiry (WALE) across the portfolio of 4.2 years (see Exhibit 6 below). In South Africa, commercial property leases contain annual rent escalation clauses, which in Hyprop's portfolio, currently ranges from 8%-9%, providing rental growth and inflation protection. For year-end December 2011, 71% of Hyprop's revenues of ZAR1.6 billion comprised contractual rental income and 21% service charge recoveries (Hyprop pays all utility costs and then recoups them from the tenant).

EXHIBIT 5

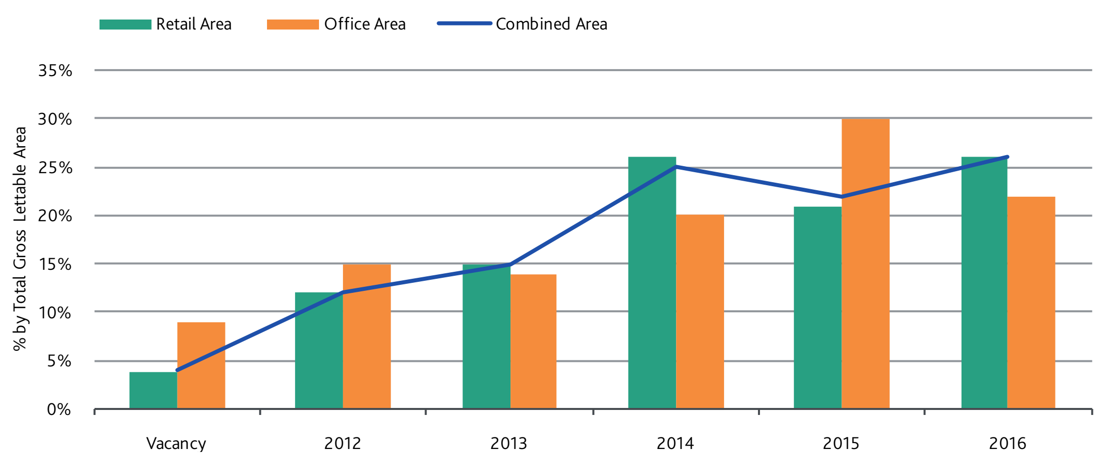
Historical Vacancy Spit by lettable area



Source: Hyprop investments Limited as at 31December 2011

EXHIBIT 6

Lease expiry profile by lettable area



Source: Hyprop investments Limited as at 31December 2011

Hyprop's EBITDA margin of 82.3% (according to our standard definitions and adjustments) is relatively high compared with that of global peers, as well as higher than that of local peers Growthpoint and Redefine but slightly lower than Capital Property Fund. We anticipate Hyprop's EBITDA margins coming under pressure from (i) increased difficulty of recovering the above inflationary increases in utilities (electricity, rates and municipal levies) from tenants; (ii) upward pressure on vacancies, notably from the office/commercial sector and from the expected redevelopment of The Mall of Rosebank; and (iii) lower rental growth on new lettings.

Hyprop's arrears at March 2012 improved to ZAR34.5m since the peak of 2009 (ZAR41.3m - FYE 2011; 2.2% of revenue and ZAR48.1m - FYE 2011; 3.0% of revenue), representing 1.4% of gross rental income. Management has a total arrears target of 1% below total billings. Bad debt provisioning for the FYE 11 amounted to ZAR17.4 (0.91% of collections). HYPROP does not have a bad debt provisioning policy however provisioning of arrears is done on a case by case basis.

Liquidity Profile Inline With Current Rating

Hyprop's liquidity is deemed sufficient to meet its near-term obligations, supported by (i) unutilised committed liquidity facilities of ZAR1.8 billion; and (ii) stable internal cash flow generation. However, there is a need for debt refinancing and additional funding requirements to meet its development capex plans to ensure a sound liquidity profile over the next 12 to 18 months. The Fund's current credit facilities are provided by a variety of domestic banks and are subject to covenants and material adverse change clauses. At present, there is good headroom in the covenants and Hyprop has in the past successfully managed to renegotiate its bank facilities.

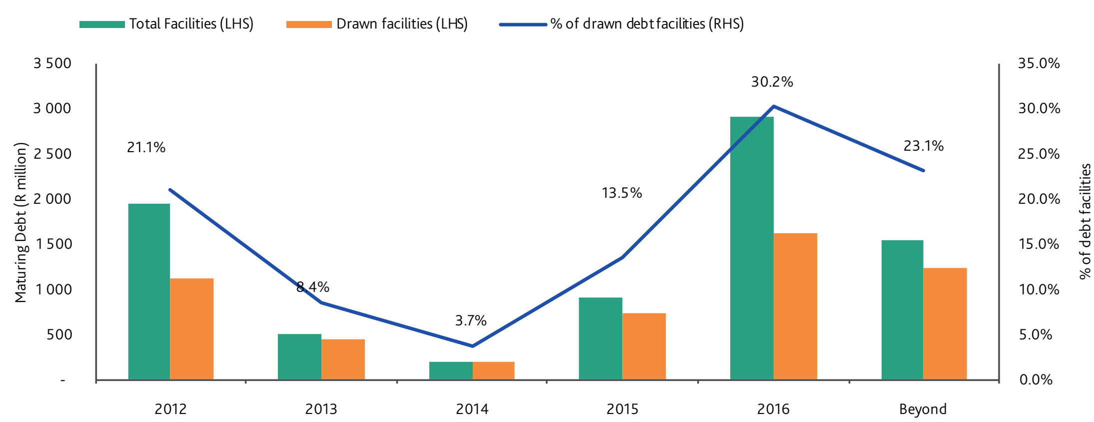
Hyprop distributes its distributable income on a 6-monthly basis. Between distributions, cash generated from operations is paid into floating debt to more efficiently manage excess cash.

Hyprop does not have any liquidity back-up credit facilities. However, the company treats its floating bank debt facilities as "liquidity back-up" credit facilities. Typically 20% of all facilities are floating and can be accessed immediately (i.e. Hyprop can repay up to 20% of the facility and can at its discretion redraw that portion as and when required).

The rating grid outcome for the weighted average debt maturities factor is in the B range, which is significantly lower than Hyprop's current rating level of Ba1/Baa3 on the global scale.

EXHIBIT 7

Debt Maturity Profile



Interest rates are floating rate linked to 3 month Jibar or Prime. The company's policy is to hedge the interest rates of at least 80% of its total debt (weighted average period of interest rate hedging – not less than 5 years), but there is a difference in tenor matching. Historically, South African banks generally do not enter into long-term funding agreements but the interest rates on debt are generally hedged beyond the expiry of the loan facilities'. The banks consent to this practice on the basis that the facilities are typically "rolled" over on expiry. As of FYE2011 70% of debt was hedged, lower than target to provide for flexibility for the allocation of funds from sale of noncore assets.

Relatively Low Leverage And Coverage Credit Metrics

At FYE 2010 Hyprop's leverage, as measured by adjusted total debt/gross assets was low at 13.0% and increased to 27.4% at FYE 2011 due to the Attfund Retail acquisition. Given the EBITDA for Hyprop only includes four months of Attfund Retail, we have not assumed the debt/EBITDA leverage increased to 5.0x (from 2.0x). Our analysis adjusts the EBITDA to 31 December 2011 to account for the full benefit of Attfund Retail EBITDA contribution, which yields an adjusted debt /EBITDA of 3.7x.

South African property companies have traditionally financed their assets with secured bank loans. Hyprop has followed the same approach. Despite the low leverage, 100% of its outstanding debt at 31 December 2011 had been issued on a secured basis and 75% of its assets are encumbered. The Fund's ratio of secured debt/gross assets at 31 December 2011 was 27.4%, which falls in the Ba range in the rating grid and unencumbered assets of 24.8% falls in the B rating range.

The board has determined that leverage, as defined by net debt/property assets (26.2% as of 31 December 2011), can be increased to levels between 30%-40%, mainly through corporate activity and developments although its memorandum of incorporation allows leverage of up to 55%.Therefore, these are constraining factors on the rating.

Structural considerations

As a PLS, Hyprop's capital structure is composed of linked units that are traded on the JSE. These are ordinary shares linked to unsecured, unsubordinated variable rate debentures in the ratio of one ordinary share of 1 cent indivisibly linked to one debenture of 493 cents each. Debenture interest is variable and is paid as a distribution from net operating profits after tax. If there are no profits, no debenture interest payment is made. The linked securities enable PLS to distribute 100% of their income as debenture interest to their unit holders, thereby being a pure flow-through from a taxation perspective, with the effective income tax rate at company level being reduced to close to zero. This structure is comparable to the REIT structure in other countries.

We consider the linked units as equity in our analysis because all PLS companies in South Africa issue linked securities and, in the case of Hyprop, issuing any other form of share capital is not economically viable, and the Fund has no intention to do so as all net operating profits are paid as variable interest to the debenture holders.

Rating Outlook

The stable outlook on the rating reflects our view that Hyprop will at least maintain its current operating profile in terms of occupancy and renewal rates and EBITDA margin, even if faced with a more severe economic downturn.

What Could Change the Rating – Up

Although unlikely in the near term, upward pressure on the rating or outlook could develop with a longer track-record as a rated entity, demonstrating prudent financial and operating policies and if the Fund continues to exhibit stable to growing size and geographic footprint with stable to improving operating margins, while maintaining overall strong liquidity profile and ample headroom on its covenants. Quantitatively, given Hyprop's smaller size compared with its two larger domestic peers, Growthpoint Properties Limited (Baa3/A2.za stable) and Redefine Properties Limited (A3.za stable), upward pressure could build if the Fund were to maintain leverage – as measured by adjusted total debt/gross assets – below 25% on a sustainable basis.

What Could Change the Rating – Down

Downward pressure on the ratings or outlook could result from (i) Hyprop's failure to maintain an adequate liquidity profile; (ii) a debt-financed acquisition or change in capital structure, such that leverage in terms of adjusted total debt/gross assets is trending above 30% or fixed-charge coverage trends below 3.0x on a sustainable basis; or (iii) unexpected operating difficulties that negatively affect operational performance or cash flows. All metrics are according to our standard definitions and analytic adjustments.

Peer Comparison

Hyprop's financial metrics are most comparable with its South African peers Growthpoint, Redefine and Capital Property Fund. Hyprop's relatively low debt / gross assets ratio of 27.4% and high fixed-charge coverage of 4.3% compare favourably relative to similar rated peers, however the rating does incorporate some financial flexibility. The proportion of Hyprop's capital structure that is made up of unencumbered assets is currently 24.8%, which is lower that its South African peers of around 40%.

From a qualitative point of view, Hyprops's property portfolio of ZAR17.5bn ($2.5 billion as at 31 December 2011) is still materially smaller relative to most local and international peers, exceptions being Capital Property Fund and Goodman European Logistics Fund which are similar in size. In terms of vacancy rates Hyprop vacancy rate has been historically low (4.1% as of 21 December 2011), in line with Growthpoint (4.0% as of 31 December 2011) but compares favourably to Capital Property fund (6.3% as of 31 December 2011) and Redefine (6.6% as of 31 December 2011). Due to its significant concentration to the retail sector as well as exposure to the Gauteng and Western Cape regions only, Hyprop is considered to have a more concentrated portfolio than it South African peers.

EXHIBIT 8

Comparison between Hyprop and EMEA Peers

Company Name	Date	Real Estate Gross Assets	Net Debt / EBITDA	Debt / Real Estate Gross Assets	Secured Debt / Real Estate Gross Assets	EBITDA / Fixed Charges (YTD) - REITS	EBITDA Margin Volatility	EBITDA Margin (YTD)
Corio N.V. – Baa1 STA	12/31/2011	10 478 507	8.68x	40.48%	6.72%	2.56x	2.00%	81.21%
Hammerson Plc – Baa2 STA	12/31/2011	9 761 912	8.08x	34.36%	1.75%	2.07x	4.42%	72.82%
Gecina SA – Baa3 STA	12/31/2011	15 581 738	9.81x	41.39%	15.27%	2.32x	1.20%	78.83%
Growthpoint Properties Ltd – Baa3 STA	12/31/2011(LTM)	6 603 076	4.87x	36.55%	25.00%	2.46x	4.10%	76.50%
Prologis European Properties – Baa3 STA	12/31/2011	3 745 730	6.92x	48.04%	25.77%	1.94x	3.48%	84.21%
Goodman European Logistics Fund – Baa3 STA	12/31/2011	2 240 000	7.15x	43.00%	21.90%	2.81x	6.40%	79.10%
Redefine Properties Ltd – Baa3 STA	8/31/2011	6 352 103	6.45x	41.43%	39.81%	2.48x	4.82%	78.78%
Capital Property Fund	12/31/2011	2 258 341	2.98x	22.43%	21.33%	3.53x	8.77%	86.48%
Hyprop Investments Limited [1]	12/31/2011	2 500 550	3.7x	27.44%	27.44%	4.29x	7.63%	82.26%

[1] Net Debt / EBITDA is calculated using adjusted EBITDA, assuming full 12 month contribution from Attfund Retail.

Moody's Related Research

Rating Methodology:

- Moody's Approach for REITs and Other Commercial Property Firms, July 2010 (126268)

Industry Outlooks:

- Stable Outlook for Australian Real-Estate Investment Trusts (A-REITs), May 2012 (142259)
- US REIT and REOC Update, January 2012 (138701)

Other Reports:

- REITs: Liquidity Considerations in US REIT Ratings, May 2012 (142046)
- EMEA REITs: Credit Stabilisation Likely to Continue in 2011, March 2011 (132012)
- Arabian Gulf Corporates: Moderate recovery underway, but property sector remains outlier, June 2011 (133533)
- South African Corporates: 2011 Review & 2012 Outlook, November 2011 (137550)
- US REITs: Firming Asset Values and Fundamentals Set Generally Positive Tone at Recent Conferences, June 2011 (133756)
- Moody's/REAL Commercial Property Price Indices, June 2011 (SF252705)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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