



two°degrees

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# Operational investor update

as at 28 May 2019

# A steady ship in a stormy sea

**Liberty Two Degrees Limited (L2D or the Company) is pleased to present the pre-close update for the period under review, which reflects a steady performance across the portfolio in challenging conditions. During the period L2D:**

- Continued to focus on the implementation of the strategic building blocks to drive the future proofing of the assets through unique and attractive experiences;
- Achieved positive trading performance in the retail portfolio;\*
- Reported low retail portfolio vacancies at 2.2% with Sandton City at 0.3%;\*
- Completed the installation of the solar photovoltaic (PV) plant at Liberty Midlands Mall which introduced clean energy to the centre;
- Commenced the Checkers Hyper Sandton City upgrade which is on track to start trading by December 2019;
- Announced the implementation of a plastic free shopping bag policy across the malls by 1 January 2020 towards its Net Zero sustainability target; and
- Is on track to reduce Edcon's exposure to below 4% of total GLA by the end of 2019 and confirmed its position as an Upfront Equity Landlord.

\*Based on availability of data:

- reporting of trading data is as at 31 March 2019
- reporting of leasing data is as at 30 April 2019

# Sectoral update

## The retail sector

The retail centres continued to achieve positive trading performance despite SA's subdued economic growth.

Trading density growth across all the assets excluding Melrose Arch and Lifestyle Centre was 2.3% with Sandton City at 5.2%, Liberty Promenade at 1.6% and Eastgate Shopping Centre reported flat growth.

In the period under review, retail leasing remained encouraging. 14,044m<sup>2</sup> in new deals were concluded across the portfolio, these include Sportsman's Warehouse and Miniso at Eastgate Shopping Centre and Tigers Milk at Melrose Arch.

## Edcon update

Subsequent to year-end, management has elected to make an equity investment of R22.7 million after taking account of the legal, tax and accounting issues. The impact thereof is that L2D will pay 100% of the equity contribution on implementation of the transaction and will receive 100% of all Edcon rentals over the next 24-month period.

Edcon's exposure for December 2018 was reported at 5.34%, however, through effective asset management initiatives, the current exposure to Edcon is at 4.55% of total gross lettable area (GLA). Deals to further reduce L2D's exposure to under 4% by December 2019 have already been agreed.

Negotiations have been finalised with various tenants to fill the Edcon space. These will be announced at L2D's interims results for the period ended 30 June 2019.



## Development update

The reconfiguration of the Checkers Hyper store at Sandton City will include seven new departments that are unique and will be a first for the Checkers brand. The new offering will include a Sushi Bar, Chocolatier and Show Kitchens amongst others. The upgrade provides an opportunity to right-size the store and provide a more diverse and improved experiential offering. The project is due to be completed on 1 December 2019. L2D looks forward to the opening of a world leading super market at the end of the year.



## Strategic implementation

During the first quarter of 2019, the Asset Management team continued building momentum to deliver on the five strategic building blocks in order to strengthen the resilience and performance of the portfolio. Progress made on the implementation of the five building blocks across the portfolio is highlighted below:



### Curating experiences

#### Implemented in Q1

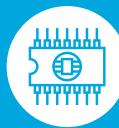
L2D held the following initiatives to curate the customer experience:

- a SuperWomen Run in support of improving women's health, fitness levels and lifestyles
- SA Fashion Week
- Handel's Messiah
- Eastgate Shopping Centre celebrated its 40th Birthday
- The Marvel training academy hosted by Eastgate Shopping Centre.

#### In progress

The installation of unique baby change room with seats, feeding booths and food warming facilities at Sandton City.

VIP Lounge and Valet parking at Sandton City.



### Embracing technology

#### Implemented in Q1

Partnership with world class out of home advertising agency JCDecaux to implement strategic advertising initiatives at Eastgate and Sandton City.

#### In progress

The launch of a malls app.



### Time is valuable

#### Implemented in Q1

The launch of the My Sandton City Stop and e-hailing points to ensure convenience for the customer.

#### In progress

The introduction of a shuttle service at Sandton City and to be rolled out across the portfolio in due course.



## Community place making

### Implemented in Q1

The launch of the Improvement District at Eastgate.

### In progress

Roll out of Food District across the portfolio.



## Sustainable and flexible

### Implemented in Q1

The installation of the solar PV plant at Midlands Lifestyle Centre.

### In progress

Further collaboration with suppliers to support the eradication of plastic shopping bags policy.

The installation of recycling drop-off booths.

The announcement of the policy on the eradication of single use plastics (2020 Promise).

## The office sector

The competitive environment in the office sector coupled with an oversupply of space in the Sandton CBD as well as the damped growth in the South African economy remains a challenge. Considerable efforts are being made to attract the right calibre of new tenants and retain current tenants. The overall office vacancy rate increased to 10.3% in April 2019 and remains below the SAPOA rate of 11.0% for the first quarter of 2019.

Although the office market is under pressure, there have been some exciting leasing initiatives in the first quarter of this year. Atrium on 5th has secured new tenants, which will occupy 4,458m<sup>2</sup> in GLA, to take occupation shortly.

Management continues to monitor the impact on the portfolio due to the negative reversions expected in the office sector.

## In conclusion

L2D continues to perform in line with expectation despite the slow growth in the retail sector. The introduction of new stores across the portfolio indicates continued strong retail demand. The portfolio remains well positioned for operational growth, supported by underlying property income and supplemented by strategic developments. Through the implementation of the strategic building blocks, L2D remains committed to delivering sustainable and quality income distributions to investors by driving the portfolio's operational and financial performance.

The Company enters a closed period as at 1 June 2019. L2D's half-year financial results for the period ended 30 June 2019 are due to be released on SENS on Monday, 29 July 2019. A presentation of the Interim Results is scheduled to take place on the same day.

The information set out in this update has not been reviewed or reported on by the Company's auditors.



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