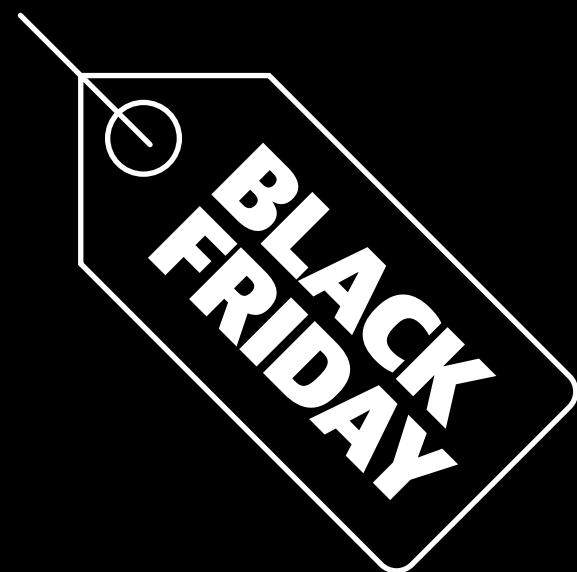




# Pre-close investor update

29 November 2019





# Quality in uncertain times

**Liberty Two Degrees (L2D or the Company) continues to deliver operational growth despite a depressed domestic economy that continues to exacerbate subdued levels of confidence in the real estate sector.**

Our ongoing efforts to respond through our focused strategy to an ever-changing environment, allows us to remain at the forefront of retail and leisure trends whilst maintaining operational excellence at our assets. We have implemented a number of initiatives in 2019 that contribute to engaging customers in a way that creates a memorable experience. The implementation of these initiatives has translated into positive trading metrics.

We are pleased to present our pre-close operational update where L2D:

- Continued to focus on the implementation of our strategic building blocks to ensure customers remain engaged in a way that creates a memorable experience;
- Achieved positive trading density growth in the retail portfolio of 3.0% with Sandton at 8.4%\*;
- Achieved low retail portfolio vacancies at 1.8% with Sandton City at 0.6%\*\*;
- Successfully completed the refinancing of R505m of term debt that was due on 31 October 2019. The refinancing was concluded at improved interest margins and the average duration of term debt is 3 years. Currently 81.6% of interest rate exposure on our term debt is hedged for an average hedge duration of 3 years;
- Completed the Sandton City Checkers Hyper upgrade which included many new offerings that are a first for the Checkers brand in addition to opening a new flagship Sportscene and baby care lounge at Sandton City;
- Made progress together with the tenants in implementing a single-use plastic bag, straw, and balloon-free policy across all L2D malls by January 2020 in line with the 2030 Net Zero sustainability target;
- Reduced our Edcon exposure to below 4% of total GLA;
- Converted the hotel operating agreements to hybrid lease agreements for the Sandton hotels portfolio;
- Commissioned the catheterisation laboratory at Melomed making the hospital the leading medical facility in the rural area of Richards Bay and a centre of excellence;
- Awarded 12 footprint marketing awards including a Spectrum Award at the 2019 South African Council of Shopping Centres (SACSC) Annual Congress for experiential events and promotions; and
- Leads smart new technologies in sustainable solutions to food production and food security through Eastgate Shopping Centre's new Aquaponic Farm District.

\*Reporting of trading data is as at September 2019

\*\*Reporting of leasing data is as at September 2019



# Retail sector trading performance

**Despite the challenging operating environment, overall retail sales growth remains positive in our portfolio albeit at a restrained pace.**

Our overall portfolio (excluding Melrose Arch and Midlands Mall Lifestyle Centre) reported annualised trading density growth of 3.0% at the end of September 2019. This is an improved performance relative to the December 2018 growth of 2.9% and above the 2.8% reported at June 2018.

## Annualised trading density growth over a 12-month rolling period

The table below details the trading density growth across the portfolio.

	<b>Annualised trading density</b>	<b>% growth YoY at September 2019</b>
<b>Sandton City</b>	58 530	8.4
<b>Eastgate Shopping Centre</b>	36 757	(2.0)
<b>Nelson Mandela Square</b>	57 976	4.9
<b>Promenade</b>	41 365	3.2
<b>Midlands Mall (excl. Lifestyle Centre)*</b>	38 159	(0.2)
<b>Botshabelo</b>	32 291	12.2
<b>Portfolio (excl. Melrose Arch and Lifestyle Centre)</b>	<b>45 256</b>	<b>3.0</b>
<b>Melrose Arch**</b>	29 389	11.8
<b>Full portfolio (excl. Lifestyle Centre)*</b>	<b>44 142</b>	<b>4.1</b>

\*24 months of data is required in order to calculate the annualised trading density growth and the Lifestyle Centre has not been operational for a full 24-month period.

\*\*L2D owns a minority stake in Melrose Arch and does not directly manage the retail component.

The overall portfolio vacancy rate of **4.4%** has shown a positive movement from 4.6% in June 2019 (3.4% in December 2018). This improvement was mainly driven by retail leasing initiatives which saw vacancies drop to **1.8%** from 2.4% in June 2019 (1.2% in December 2018). The retail portfolio continues to perform better than its peers. The SAPOA Q2 retail benchmark is at 4.3%.

**Retail leasing remained encouraging in the period with 32 725m<sup>2</sup> in new leases concluded across the portfolio in 2019.**

Included in these are:

<b>Sandton City</b>	<b>Eastgate Shopping Centre</b>	<b>Midlands Mall</b>
Capitec Bank	Mr Price Home (relocation)	RJ's
Daniel Wellington	Milady's (refurbishment)	Liberty Group Offices
Sportscene*	Miniso	Fabiani
My Cotton Tree	Kingsley Heath	Sneaker Factory
African Bank	Salon Paul Mitchell	Rain pop-up
Bogart	Poetry (refurbishment)	

\*Flagship store

**Sandton City and Eastgate will introduce a number of new tenants before the end of 2019.**

These include:

<b>Sandton City</b>	<b>Eastgate Shopping Centre</b>
Salomon	Panel Lab
NWJ	Hoops Lounge
Reebok	PnP Clothing*
Franco Hair-care	Lacoste (expansion)
Tammy Tailor	Rage*
Tower FX	Cotton On & Cotton On Kids*
CBD Store	Belle Alure (refurbishment)
Freddy Jeans	DMF

\*Flagship store



# Retail sector trading performance

## Continued



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The following initiatives were implemented in support of our strategy:



### Smart Spaces

#### L2D initiatives:

Syenap, the camera-based foot count system, has now been rolled out across the entire portfolio and continues to enable management to better understand customer activity, thereby improving leasing and marketing strategies.



### On-demand Spaces

#### L2D initiatives:

My Sandton City Stop. Iconic Mall shuttle between Sandton City and Eastgate Shopping Centre. In partnership with Zeelo. Introduction of service tenants such as banks and other service centres.



### Good Spaces

#### L2D initiatives:

Reverse vending machines were installed at Sandton City in October 2019, offering an opportunity for customers to recycle waste and earn money. This enables customers to make recycling a part of their daily routine.

Smart water and electricity meters throughout the portfolio.

Eastgate Shopping Centre will be launching its rooftop Aquaponic Farm District in partnership with Ichthys.



### Inclusive Spaces

#### L2D initiatives:

Baby care lounge (Sandton City). Phone charging points have been installed at Sandton City and Eastgate Shopping Centre.

Snap study launched in September 2019 - an informational rewards programme that affords shoppers an opportunity to upskill themselves through short, online courses on various subjects.



### Immersive Spaces

#### L2D initiatives:

In order to create a more immersive experience into the life and culture of Nelson Mandela, we introduced into the Piazza and retail section touch points of sayings, storytelling and product relating to the life and times of Nelson Mandela. Unique interactive digital experiences such as the digital aquarium at Sandton City.

The creation of "Social" moments through family focused activations as well as collaborations with the art and fashion industries through SA Fashion Week and Latitudes Art Fair.

Creating hospitality shopping packages with our partners in the Sandton Sun and Garden Court for travel shopping experiences aimed at our regional and international shoppers.



# Retail sector trading performance

## Continued



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To mitigate risk on the portfolio, L2D continually monitors tenant performance and proactively engages expected problem areas.

## FOREVER 21

L2D's exposure to Forever 21 is limited to one store at Nelson Mandela Square which is managed by a franchisee and represents 0.27% of total portfolio GLA. The store is currently open and trading as normal and will close at the end of April 2020. A number of replacement tenants have been identified as this is a high traffic area of the mall.



Hamleys went into business rescue in early 2019. The business rescue process was concluded with new owners being Rand Outfitters and Osbro taking over after the previous owner absconded. An acknowledgement of debt for a portion of the arrears at Sandton City and Eastgate Shopping Centre has been signed and the new owners are now operating the stores. We continue to seek recourse against the previous owner.



STARBUCKS®

On 1 November 2019, Taste Holdings announced that the company would be selling its Starbucks franchise business in South Africa. L2D's exposure to Starbucks is limited to Sandton City, Eastgate Shopping Centre and Melrose Arch and amounts to a GLA of around 0.10%. The Store is open and trading at all three centres and management is currently engaging with the buyer to ascertain the impact and to mitigate risk on the portfolio.



## In closing

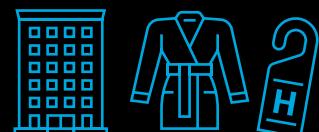


### The office sector

The competitive environment in the office sector coupled with an oversupply of space as well as the dampened 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 remained flat at 9.8% in September 2019 compared to June 2019 and remains below the SAPOA rate of 11.0% for the third quarter of 2019.

Although the office market is under pressure, there have been some exciting leasing initiatives in the period that we hope will soon deliver results.

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



### Hotels

The Sandton hotels have performed well compared to market peers, however the segment continues to be under significant pressure as a result of the weak economic environment. The newly signed hybrid lease agreements enhances our upside participation due to the rental structure and performance clauses introduced whilst better managing our operational risks in the assets.

**To support our vision of being the leading South African precinct focused, retail-centred REIT, we believe that our focus towards fulfilling our purpose of continuously creating experiential spaces to benefit generations, will serve us well in continuing to deliver quality in uncertain times.**

The portfolio's performance is in line with expectations in a challenging retail environment.

The successful implementation of leasing strategies and continuous engagement with tenants throughout the year have improved the retail portfolio vacancy and allows us to stay abreast of tenants showing signs of strain.

The Company enters a closed period as at 1 December 2019. L2D's full-year financial results for the period ended 31 December 2019 are due to be released on SENS on Monday, 24 February 2020. A presentation of the 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.



### Contacts

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