



two°degrees

Operational update

September 2020

Encouraging progress
in Rebuilding for Growth

This voluntary report provides the traditional update on the operational performance of the portfolio of Liberty Two Degrees (L2D) as reported in the interim results released on 27 July 2020.

As noted in the interim results, the operational performance for the first six months of 2020 was significantly impacted by the Covid-19 pandemic and the implementation of a national lockdown. The move to lockdown level 2 on 18 August 2020 and the reopening of the South African economy has contributed to a recovery in trading with a marked improvement in footcount at our centres with most tenants having reopened for trade. The recent announcement of the move to lockdown level 1, on 21 September 2020, which further relaxes restrictions on the movement and economic activity of South Africans is welcomed and will support the ongoing economic recovery. The ability of restaurants to operate at increased capacity and the opening up of international travel from 1 October 2020 will provide additional impetus to the South African economy and the recovery of our hospitality portfolio.

In terms of liquidity, L2D remains well capitalised with an unchanged Group LTV of 21.7% and unutilised RCF facilities totalling R400 million.

The latest weekend footcount across the portfolio is at 80% of 2019 levels with the top performers being Sandton City (85%), Midlands Mall (88%) and Eastgate (97%). The monthly portfolio footcount at 31 August 2020 improved to 68% of the comparative 2019 level and continued to rise with a 10% increase from July 2020. The number of tenants trading as a percentage of retail GLA at 31 August 2020 was 93.1% which represented a good improvement from the 85.4% reported at 30 June 2020.

In this report, the latest monthly turnover data is provided for July 2020 and vacancy rates at 31 August 2020 are disclosed. In addition, we provide an update on rent collections and rent negotiations as well as commentary on the latest leasing initiatives and the delivery against some of our strategic building blocks. The information has not been reviewed or reported on by L2D's external auditors.

Collections and rental relief update

We are pleased to report that rental collections based on the full amounts due and before any rental relief has increased to 74% at 31 August 2020. This is an improvement from the levels last reported at April (38%) and May (45%) 2020. The respective collections percentages for June and July 2020 were 65% and 72%. The improvement is a result of the further finalisation of rental relief negotiations and the fact that almost all tenants are now trading. We expect the total arrears position to improve by year end from the 67.7% reported at half year, as we close out all the rental relief negotiations.

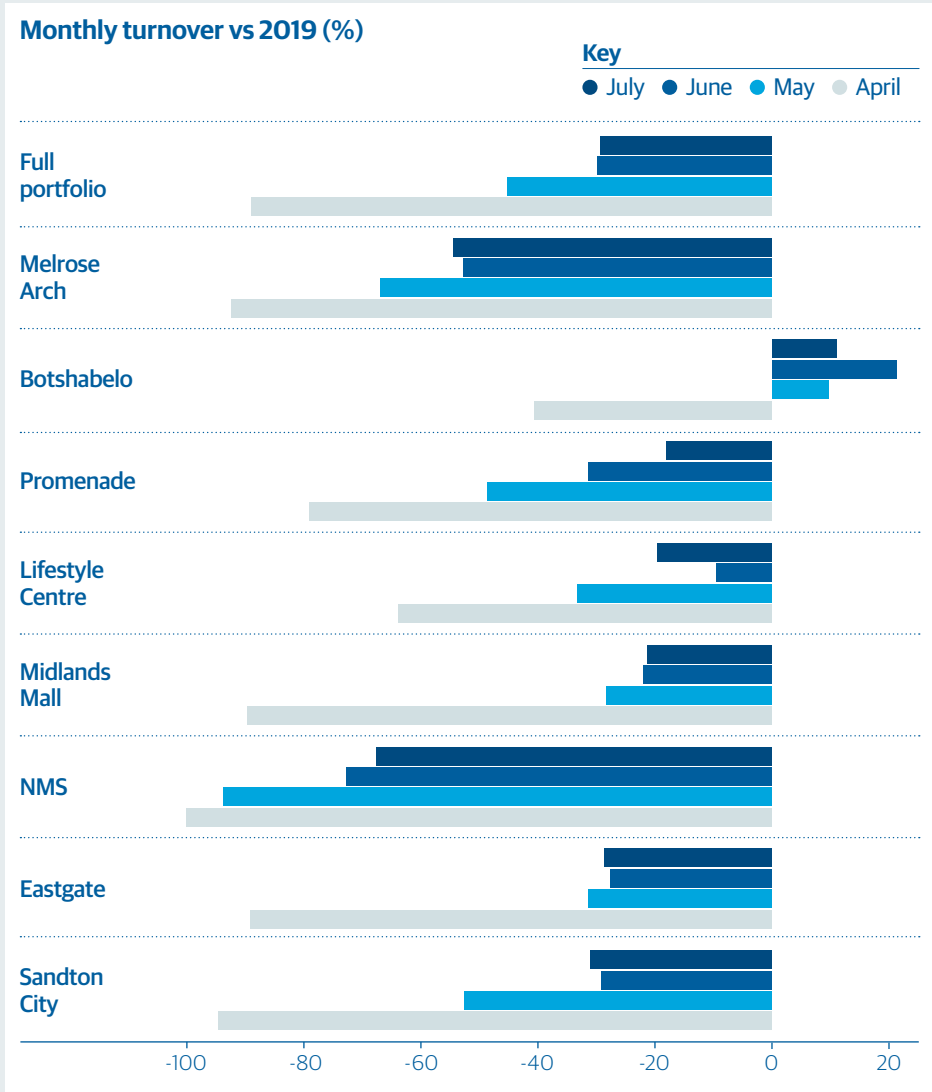
Rental relief negotiations are ongoing and good progress has been made in concluding negotiations with listed clothing retailers and major national and international retailers, however, the impact of the uncertainty in the environment following Covid-19 remains of concern. L2D continues to work with all our restaurant and SME tenants to get them open and back to business as soon as possible as these sectors were severely impacted and required additional support.



Retail operational trading update as at 31 July 2020

The graph below reflects the most recent monthly turnover of the various assets relative to the comparative 2019 levels. We are pleased to note the continuing positive trend in monthly turnover and specifically that the monthly portfolio turnover for July 2020 which has returned to 71% of the turnover reported on for July 2019.

Monthly turnover



Monthly turnover continued

The portfolio has seen a gradual improvement in turnover as the lockdown levels have been eased, allowing retailers to resume trading and drawing customers back to our retail environments.

Botshabelo has recorded turnover growth over the most recent three months and this strong performance is a result of the community nature of the mall and the relatively smaller impact from Covid-19 on both tenant performance and footcount.

There have been good improvements in trading at the other centres with Promenade and Midlands Mall only 18% and 21% off 2019 levels respectively. The turnover at the super-regional centres is approximately 30% below the comparative 2019 periods as these malls have been more severely impacted as a result of the lockdowns and exposure to restaurants and hospitality, however, the recent move to lockdown level 1 should lift turnover levels further.

Vacancy update

In the current economic climate, the retail portfolio has shown some resilience with a vacancy of 3.8% at August 2020 (June 2020: 3.5%).

The office vacancy increased from 10.1% in June to 12.2% in August 2020 and is largely due to the sale of the fully let Century City Office. The work from home trend continues to negatively impact the office sector with the SAPOA Q2 2020 vacancy rate at 12.3%, the highest in 16 years.

Accordingly, there has been a slight increase in vacancies across the portfolio from 5.3% in June to 6.1% in August 2020.

%	Portfolio	Retail	Office	Specialised
June 2020				
Overall vacancy rate	5.3	3.5	10.1	0.0
Pre-let vacancy rate	5.0	3.3	9.3	0.0
August 2020				
Overall vacancy rate	6.1	3.8	12.2	0.0
Pre-let vacancy rate	5.7	3.6	11.4	0.0

Note: Century City was transferred on 9 July 2020 and no longer forms part of the total GLA

A close-up, profile view of a man with short dark hair, wearing a grey suit jacket, a light-colored shirt, and a blue patterned tie. He is also wearing a white face mask. He is looking towards the left of the frame. The background is a blurred wooden wall.

Leasing initiatives

L2D strives to bring new and exciting offerings to our malls and in doing so continues to enhance the customer experience.

Sandton City has successfully opened two new stores being Desigual and Refinery and refurbished the Aeronautica Militare and Breitling premises. Tasty Gallos has opened in Eastgate's food district and the piazza has recently been upgraded with the addition of three solar trees. Eastgate also has its first virtual kitchen, Cloud Dine.

Change in retail tenant exposure

Edcon (3.5% of portfolio GLA at 30 June 2020) reached agreement to sell Edgars and Jet to retailers Retailability and The Foschini Group (TFG) respectively.

The Competition Commission recently approved the sale of the Edgars stores to Retailability as well as the transaction whereby TFG acquires the Jet stores. As a result TFG moves from 3.0% to 3.6% portfolio GLA exposure and Retailability increases from 0.2% to 3.2% portfolio GLA exposure. Market related rentals have been agreed with the new owners.

We continue to engage with our key tenants, on both a strategic and operational level.

Strategic initiatives

Good Spaces

L2D remains on track to become net zero waste ready by the end of 2020. The main focus has been on engaging with our waste service providers to establish operational requirements and cost structures to enable waste separation at source.

We are in the process of acquiring Green Star ratings for all our properties and have made the relevant submissions to the Green Building Council of South Africa. The portfolio should receive retail Green Star ratings before the end of the year.

Smart Spaces

In response to the changing shopping preferences of our customers and their expectations for greater convenience as well as our tenants desire to recover from the adverse impacts of the Covid-19 pandemic on their operations, we are developing customer engagement platforms to deliver on their prioritised needs.

In addition, we are driving initiatives to optimise our operations in order to free our people to focus on developing solutions that enhance the experiences of our customers and tenants.

Open Spaces

Open Spaces was launched in September 2020 as an enterprising initiative offering local and independent brands a platform to submit a business plan to exhibit within any of the portfolio's super-regional shopping centres and community-centric malls.

Unique retail packages will be offered to suit the individual offerings. Open Spaces forms part of L2D's #CreateTomorrow campaign with the aim of making tomorrow more innovative.

Conclusion

We continue to act with humanity, anticipating and proactively responding to the changing needs of our customers, while protecting the sustainability of our business in the interests of our stakeholders. In response to the current economic environment we have also focused on our strategic building blocks and managing our assets as efficiently as possible with an emphasis on quality property management and tenant retention.

The emphasis on creating experiences for our customers remains a strategic focus area and we consistently challenge ourselves in merging the online and offline (in-mall) experiences, in order to create a seamless customer journey and experience. Our promise of a positive customer experience and superior offering drives the delivery across our various touchpoints.

We understand these unprecedented times call for tangible action in order to inspire real change. Through the #CreateTomorrow marketing campaign that was recently launched to redefine our retail spaces, we reaffirm our commitment to position the business for the expected step change towards rebuilding for growth for all.





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This Operational Update is also available at:
www.liberty2degrees.co.za/investors/results-centre/

Johannesburg

28 September 2020

Corporate information

Liberty Two Degrees Limited

Date of registration: 10 July 2018

JSE share code: L2D

ISIN: ZAE000260576

(Approved as a REIT by the JSE)

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