Liberty Two Degrees' quality assets continue to underpin resilient demand for L2D space

Highlights in the period:

- **Providing SAFE Spaces for our people, customers, tenants and shareholders remains a priority**
- **Retail occupancy rate of 96.7% shows improvement**
- **Leases of 20 303 m² in new deals and 23 803 m² in renewals concluded**
- **Continued positive trend in monthly turnover growth in 2021**
- **100% distribution pay-out of 15.79 cents per share**

26 July 2021

Liberty Two Degrees (L2D), the South African precinct focused, retail-centred REIT, reported its interim results for the period ended 30 June 2021. Despite the impact of the challenging operating environment, L2D's results reflect a focused asset management drive and operational strategy in leading the business through this difficult period.

The board is satisfied with L2D's capital management efforts and that the core business remains sustainable. The board has declared a full pay-out of the mid-year distributable income of 15.79c per share.

The comparative half year results must be seen within the context of strong trading in the first quarter of 2020 followed by the impact of the first lockdown which severely affected trading and led to the necessity of rental rebates and discounts which prevailed for the balance of 2020, and into 2021.

Amelia Beattie, L2D Chief Executive comments "*Taking the uncertain and tough environment into account, we understand that recovery is a progressive endeavour and that it will take time. We are however encouraged, despite the climate of uncertainty, by the resilient demand for space in our environments as well as the recovery in the trading levels, as evidenced in the first half of the year. The focus of our capital and risk management strategies will be to protect and preserve our balance sheet and control costs, while we carefully pursue the operational growth opportunities aligned with our strategic value drivers. We have a clear and focused strategy, grounded in property fundamentals, and we remain committed to executing our business in a sustainable manner, remaining adaptive as we rebuild for growth.*"

Operational performance

The first six months of the year showed promise, buoyed by the easing of lockdown restrictions from March 2021. This resulted in sustained improvement in foot count and turnover at our malls. The encouraging start to the year contributed to better occupancy rates and good leasing activity in the period, with demand for space remaining strong given the quality of the L2D assets and a focus on ensuring sustainable business operations.

- We are pleased to report that the retail portfolio has achieved an occupancy of 96.7%, which is largely driven by the exciting and experiential store openings in the period. This remains ahead of the MSCI Q1 2021 occupancy benchmark of 93.2%. The improvement is largely driven by Sandton City after officially opening the new Adidas Halo flagship store complimented by the opening of the Gap store within a few weeks. Eastgate Shopping Centre's Value Co tenant took beneficial occupation during the period and Nelson Mandela Square has also made strides with tenant openings including Tang, Style Loft and Luxity.
- The office portfolio occupancy has marginally declined from 86.8% in March 2021 to 86.6% in June 2021 (Dec 2020: 87.6%, June 2020: 89.9%). The overall decline equates to an additional net vacancy of 361m². This, however, remains above the SAPOA Q2 Office benchmark of 85%.
- The overall portfolio occupancy is at 93.7% compared to 93.3% in December 2020.

L2D's leasing strategy has delivered good results as new tenancies continue to enhance the customer experience, providing an interactive and unique product offering that aligns to customers' needs. Reversions remain negative during the period.

- 79 renewals have been concluded in the first six months of 2021, with 69 in the retail space with 10 office deals, equating to 23,803m² of the total GLA.
- An additional 35 new deals were secured across the portfolio since March 2021, taking the total new deals to 54 (20,303m²). This is made up of 44 retail and 10 office deals.

A steady improvement in trading was experienced across the assets, showing a positive trend in monthly turnover and foot count for the first time this year vs. pre Covid levels.

- L2D recorded a positive trend in monthly turnover of 3.7% and 88.1%, compared to May 2019 and May 2020 respectively.
- For the first time this year, positive growth was generated compared to pre-Covid comparative levels at 3.7% in May 2021.
- The portfolio footcount has continued in a similar recovery trend to turnover. Footcount for May and June 2021 was up 106% and 55% compared to May and June 2020 respectively. When comparing the footcount to 2019, May 2021 was down by 1.6% while June was more impacted by the third wave and subsequent adjusted level 4 lockdown resulting in footfall being down 11.7%.

Financial performance

L2D's reported net property income grew 19% compared to the prior year buoyed by a relative improvement in credit loss provisions between the two periods. In comparing the half year in 2020 with the first half of 2021 it is important context to remember that the first quarter of 2020 was largely not impacted by COVID-19. In the current period we continue to experience pressure on rentals especially for income streams related to the hospitality, entertainment, and restaurant categories.

José Snyders, L2D Finance Director adds, *"Our balance sheet capacity remains a key differentiator in enabling our ability to support our tenants through this volatile time. With a loan-to-value (LTV) of 23.97%, our conservative gearing provides a buffer in navigating the impact of the current economic climate".*

Liquidity in the business has been supported by improved rental collection. Rental collections based on the full amounts due and before any rental relief, continued to show monthly increases and reached 112% in June 2021.

- Tenant support and sustainability remains a critical focus and L2D continues to work with the tenant categories most impacted
- In lease renewals over the period we have remained focused on creating a sustainable rental base to grow from as the economy recovers

"We have developed several lead indicators to assist with understanding the risk of tenant failures and we will remain close to our tenants to ensure we get the best outcome for the portfolio" Snyders adds.

The property valuations are reflective of the current environment with property investment being inherently cyclical in nature. At 30 June 2021, L2D's independent valuers valued L2D's 100% South African property portfolio at R8.5 billion (30 June 2020: R8.7 billion), a marginal increase from the December 2020 valuation, following the significant write down of the property portfolio valuation by R1.7 billion in 2020.

Net asset value per share decreased from R7.72 at June 2020 to R7.62 at June 2021 due to the payment of the interim distribution as well as the distributable income for the interim period.

Expense growth outside of municipal charges remained well contained, it remains concerning however that rates and municipal charges continue to track ahead of inflation.

Outlook

"Looking ahead, the outlook for the industry remains very uncertain as we grapple the continuing risks from the Covid-19 pandemic. Given this context, we remain cautious and realistic, and the board has therefore resolved not to provide earnings and distribution guidance for the remainder of the 2021 financial year.

It also remains a difficult time with the ongoing impact of Covid-19 on the lives and livelihood of people and our deepest thoughts are with everyone that lost loved ones and colleagues during this time.
We do however believe there will a better tomorrow in time as more of the vaccines against the Covid-19 pandemic are administered – but the positive impact on the portfolio will not be seen immediately and will take time.

We remain committed to executing our business in a sustainable manner with the ability to adapt where required as we rebuild for growth" Beattie concludes.

- ***Ends –***

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NOTES TO EDITORS

About Liberty Two Degrees Limited
With a vision to be the leading South African, precinct-focused, retail-centred REIT, Liberty Two Degrees (L2D) is listed on the Johannesburg Stock Exchange as a Corporate REIT and is positioned for sustainable growth and the unlocking of stakeholder value for the long-term. L2D continues to create experiential spaces that benefit generations in line with its purpose, through innovative and unique experiences that attract tenants and shoppers to its malls. L2D's vision and purpose guide its strategy and underpin its everyday business activities.

About Liberty Two Degrees' portfolio
The portfolio consists of quality, high-value properties in the retail, office and specialised sectors. The retail component generates the majority of its gross rental income, followed by office space and the specialised sector, which includes hotels, a hospital, a motor vehicle dealership and a gym.

<u>Retail</u>

The retail portfolio features iconic properties that are prime destination centres with high-level market dominance. Each asset has been green-star rated by the Green Building Council of South Africa, making it the first retail portfolio to be green-star rated in its entirety. The portfolio is also certified COVID-19 compliant by international certification body, SAFE Asset Group. The retail assets offer a dynamic tenant mix that is designed to meet the varying and ever-changing needs of consumers. Through a focused strategy L2D aims to future-proof its assets by creating spaces that provide a sense of community and go beyond the ordinary shopping experience. This is achieved through digital transformation initiatives and the execution of our asset masterplans as well as a sharpened focus on operational efforts and business activities.

The retail portfolio is as follows:

- **Johannesburg:**
  - Sandton City Complex, Eastgate Complex, and Nelson Mandela Square
- **Cape Town:** Liberty Promenade Mall
- **KwaZulu-Natal:** Liberty Midlands Mall
- **Bloemfontein:** Botshabelo Mall

<u>Office</u>

The office component of the portfolio consists of offices that are attached to retail property within a mixed-used precinct, as well as stand-alone offices. Our mixed-use precinct offices include Sandton City, Nelson Mandela Square, Eastgate and Melrose Arch. For the most part, these spaces are rented out to multiple tenants. Standalone offices include the Liberty Centre Head Office and Umhlanga Ridge and the Standard Bank Centre.

<u>Specialised</u>

The specialised element of the portfolio consists of prime rental space that is mostly located within the Melrose Arch complex, Sandton Convention Centre, Virgin Active Sandton, Melomed Hospital and automotive showrooms located in Richards Bay.

<u>Hotels</u>

Our hotel portfolio includes Garden Court Sandton, Sandton Sun and InterContinental Towers. The hotel portfolio is geared to luxury grading with Garden Court graded as a mid-tier offering.

About L2D's Strategic Value Drivers

To enable sustainable value creation and reduce the effects of the challenging environment, a main focus for the year was on executing initiatives that align to our strategic value drivers. These are articulated as **customer experience**, **tenant experience**, **employee experience** and **capital and risk management** which translate into our financial outcomes and are underpinned by the **good we do**.

Our strategic value drivers measure our performance against key metrics that enable the creation of stakeholder value.

About L2D's building blocks

L2D's aim is to create spaces that enable personal, memorable human engagements and seamless interactions between retailers and consumers, continually driving authentic encounters through community-driven engagements and a strong focus on sustainable and ethical practices. This has been articulated through the L2D strategic building blocks, which help futureproof the assets and truly set them apart in the market and sharpen the focus of L2D's efforts and business activities. The L2D building blocks are:

- **Good Spaces:** L2D's shopping malls are ecosystems that provide trading and experiential environments for some of the world's most iconic brands as well as brands in high demand. L2D understands the importance of partnering with its stakeholders to accelerate its positive impact on the natural environment. L2D remains bold in driving its net zero commitments, which is evident at a number of its business operations and sites. L2D continues to reduce carbon emissions, water use and waste generation as it moves towards achieving its net zero sustainability target by 2030. Supportive initiatives have been implemented to achieve this goal.
- **Smart Spaces:** L2D aims to secure and sustain its leading position in the market by remaining at the forefront of innovative design thinking. The creation of smart environments that integrate technology to enhance the customer and retailer experience is a key initiative in this strategic growth area. Through Smart Spaces, L2D aims to accelerate its roadmap to create the seamless interaction between digital and physical retail
- **Interactive Spaces:** Interactive Spaces is about providing an interchange of ideas and experiences within the L2D malls. The emphasis is on interaction, a fast pace, excitement, experience and stimulus, with a vision to create vibrant and diverse spaces with experience at their heart. Interactive Spaces encourages common ownership, placemaking and enjoyment of the physical environments in which L2D operates.

- **Safe Spaces:** L2D's building blocks are all underpinned by Safe Spaces. L2D aims to drive a clearly defined mall strategy that ensures the mall environments hold the highest standard of safety and security for tenants and shoppers. L2D has been affirmed by SAFE Shopping Centres, a Global certification and advisory company, as the first responsible owner in Africa to achieve international certification following a Covid-19 assessment, taking the extra steps to ensure duty of care for tenants and shoppers.