Demand for L2D space remains strong in a challenging environment

Encouraging recovery in retail turnover and footcount

- Retail portfolio recovery underpins 5.47% increase in full-year distribution to 34.1 cents per share with loan to value remaining healthy at 23.87%
- Strong recovery in operational metrics, with retail turnover up 24.5% and occupancy up to 96.8%
- Improvement in reversion from 2020 but rentals remain pressure.
- COVID-19 impact on hospitality assets remained significant resulting in net property income for this sector being down R17 million (178%)
- International safety and security certification put our malls among the best in the world

"2021 was a challenging year for the property industry. The retail sector has had to reassess its ability to address customer needs and keep up with the evolving nature of their demands. Workplace practices have been reshaped with a focus on flexibility and safety yet with a requirement for ongoing collaboration. With cautious optimism, we remain purposeful in creating value for all stakeholders in our business" says Amelia Beattie, Chief Executive of Liberty Two Degrees (L2D).

As COVID-19 restrictions were eased and vaccinations gained momentum, consumer confidence and retail trade improved in the last quarter of 2021. In its annual results for the year-ended 31 December 2021, L2D says its financial and operational metrics overall showed positive improvement in 2021. The recovery across the portfolio however remains uneven, with differing outcomes for certain sub-sectors.

Owing to its quality portfolio of iconic assets, the primarily retail focused REIT continued to experience strong demand, with occupancy across the portfolio stabilising at 93.7% at the end of the year (June 2021: 93.7%; December 2020: 93.3%). The retail portfolio saw a marginal improvement in occupancy to 96.8% (June 2021: 96.7%; December 2020: 95.3%), above the MSCI Q3 2021 retail occupancy benchmark of 94.0%.

Over the year, Sandton City and Eastgate Shopping Centre have improved their occupancies from 97.9% and 92.9% to 98.3% and 94.6% respectively, ahead of the Q3 MSCI Super Regional benchmark of 93.2%. The rate of decline in the occupancy rate of the office portfolio slowed at 86.2% (June 2021: 86.6%; December 2020: 87.6%). L2D's occupancy remains above the MSCI Q4 2021 office occupancy benchmark, which fell to an all-time low of 84.0%. The outlook for the office rental market remains a concern due to office oversupply and the change in usage patterns.

During the year, 291 renewals and new leases were concluded, equating to 147,507m² or 15.6% of total portfolio gross lettable area (GLA) (December 2020: 148,725m2 or 15.7%). The ability to retain and attract new tenancies remains critical in the current environment.

With L2D's experiential retail offerings well established across the malls, along with the easing of restrictions and the return of workers to offices in retail nodes, Q4 of 2021 had 22.9% more customers visiting the L2D malls than in Q4 2020. Comparatively, it was only 3.4% below Q4 2019. Our analysis of footcount data indicates a shift in shopping patterns, with consumers spending more money over fewer visits to our malls with longer dwell times, translating in higher turnover.

Trading levels in the retail portfolio recovered well, and in some cases to levels exceeding those experienced in 2019. Annual turnover in the retail portfolio was 24.5% higher than in the comparable period, with turnover in Q4 up 15.8% on Q4 2020 and 5.1% on Q4 2019. Sandton City and Midlands Mall recorded the largest increases in turnover in rand terms. Sandton City, which outpaced 2020 and 2019 annual turnover by 31.3% and 4.3% respectively, has generated its highest ever annual turnover of c. R7.4 billion. Luxury brands, technology and grocery categories, continued to show an exceptionally strong recovery.

Serving a different catchment area, Eastgate’s recovery is slower which continues to provide pressure on achievable rentals. Various focused initiatives are in place to drive up turnover and dwell time at Eastgate. We are also working with management at Melrose Arch to find solutions to its high office vacancies.

The net property income contribution from the retail portfolio improved by 27.3%, an increase of R100 million compared to 2020 however still below 2019 levels.

Beattie cautions that "while retail shows promising recovery, sectors such as hospitality, food services and offices continue to bear the brunt of COVID-19 related restrictions and weak economic activity. The hospitality sector, which was impacted by the lack of business travel and conferences, remained under severe pressure thus constraining income from those properties. While it positions us for the upside as occupancies recover in line with the opening of business and travel sectors, our outlook for the sector remains guarded", says Beattie.The hospitality sector's contribution to net property income (NPI) was c.R65 million less than 2019 and R17 million less than 2020.

Property rates and utility cost hikes above inflation and rental growth rates remain a concern. Apart from greening and other initiatives to lower consumption, L2D is engaging alongside industry peers with the relevant authorities. L2D continues to engage with the City of Johannesburg in respect of the finalisation of the valuation of Sandton City, against which an appeal has been lodged.

Financial overview

In its financial performance overview, Financial Director, José Snyders highlights that NPI improved by 19% on the prior period benefitting from lower rental discounts, good containment of cost increases and an improvement in credit loss provisions. Snyders cited the decline in the hospitality portfolio and negative lease reversions and utility cost increases that significantly outpace inflation and rental growth, will continue to add pressure on the outlook for further income recovery.

Fair value adjustments include the positive R41.9 million mark to market on the interest rate hedges in place at the end of December 2021, and the property valuation write-down of R108.5 million. L2D's property portfolio was valued at R8.4 billion at 31 December 2021. This is marginally down from the December 2020 valuation, following the significant write down of R1.7 billion in 2020. Values are based on independent property valuations.

Snyders highlights the group's focus on its capital allocation and risk management strategy. "We continue to be prudent in allocating balance sheet capacity. With sufficient liquidity and remaining well within bank covenants, we have reported a loan-to-value of 23.87% (31 December 2020: 20.51%). Our interest cover ratio is healthy at 3.09 times, with 75.8% of the interest rate exposure being hedged.".

Snyders says the company has successfully refinanced R500 million of term debt, which expired at the end of October 2021, for a further five-year term adding an additional R100 million term debt to fund any long-term capital commitments. A further R850million in term debt is up for refinancing in the third quarter of 2022.

"Our Board is satisfied with our capital management efforts and that L2D will remain solvent and liquid, with a core business that is sustainable. With that, the L2D Board has declared a final dividend of 18.31 cents for the second half of the 2021 financial year, bringing the total distribution declared to 34.10 cents per share for the year ended 31 December 2021".

Outlook

"The operational performance of the retail portfolio is encouraging, supported by quality assets which have shown their resilience which should underpin strong demand for L2D space and further improvement in turnover. However, uncertainty in the trading environment as well as the fragility of the South African socioeconomic environment is likely to continue to put pressure on certain categories of tenants. The strain in the office rental and hospitality sectors, together with negative rental reversions, is likely to slow our return to pre-pandemic levels of distributable income".

"In progressing our Net-Zero 2030 target within our Good Spaces building block, we have made significant improvement towards Net-Zero waste, with an increased waste diversion rate from landfill from 40% to 75% by weight in 2021. Under our Smart Spaces initiatives, we remain focused on progressing our digital transformation strategy to benefit both tenants and customers.

"As our tenants and customers shift into post-pandemic mode, we continue to align our properties to emerging needs and have plans in place to address the underperforming assets in our portfolio. We have a focused operational strategy, grounded in robust property fundamentals, and remain committed to executing our business in a sustainable and flexible manner" Beattie concludes.

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NOTES TO EDITORS

About Liberty Two Degrees Limited

Liberty Two Degrees (L2D) is a South African precinct-focused, retail-centred REIT, first listed as a Collective Investment Scheme in Property (CISIP) on the Johannesburg Stock Exchange in December 2016. With effect from 1 November 2018, L2D was reconstituted as a corporate REIT to Liberty Two Degrees Limited. This better positions L2D for sustainable growth whilst unlocking shareholder value.

L2D's **purpose** is to continue to create experiential spaces that benefit generations, with a **vision** to be the leading South African, precinct-focused, retail-centred REIT. L2D's purpose and vision guide its strategy and underpin its everyday business activities.

About Liberty Two Degrees' portfolio

L2D has investments in a quality portfolio of iconic assets, these are:

- **Johannesburg:**
  - Sandton City Complex; Eastgate Complex; and Nelson Mandela Square;
  - Sandton Sun Hotel, the InterContinental Sandton Towers and the Garden Court Sandton City;
  - Standard Bank Centre offices; and
  - Melrose Arch precinct
- **Cape Town:** Liberty Promenade Shopping Centre; Century City Offices;
- **KwaZulu-Natal:** Liberty Centre Head Office and Umhlanga Ridge Office Park; Liberty Midlands Mall; John Ross Eco-Junction Estate; and
- **Bloemfontein:** Botshabelo Mall

L2D is focused on continuously improving the quality of its assets, introducing innovative and unique experiences that attract tenants, shoppers and visitors to its malls in order to create sustainable value for stakeholders. L2D aims to create spaces that provide a sense of community and go beyond the ordinary shopping experience.

L2D 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.