OUR VISION
To be the leading South African precinct focused, retail-centred REIT

Liberty Two Degrees Limited

Operational Investor Update for the period ended 30 September 2018

LIBERTY two°degrees

Liberty Two Degrees (L2D or the Company) has pleasure in presenting the highlights for the period under review which are as follows:

- The successful conversion to a Corporate REIT;
- On track to deliver the forecast 60c distribution per share for the FY18 period;
- Positive trading density growth reported at key assets despite tough trading conditions;
- A marked improvement in retail vacancies;
- Engagement with Edcon management continues, with proactive measures being taken to reduce portfolio exposure; and
- The strategy of positioning L2D as a leading South African precinct focused, retail-centred REIT.

1. Successful REIT conversion

The conditions precedent to the restructuring transaction have been fulfilled resulting in:

- The conversion of L2D from a Collective Investment Scheme in Property (CISIP) to a corporate REIT;
- The cancellation of the PUT option by Liberty Group for no consideration;
- The internalisation of the management company which also assumes the asset management function of the Liberty Property Portfolio (LPP); and
- The acquisition of R1.2 billion in property assets from the LPP funded by debt.

L2D commenced trading as a corporate REIT on the Main Board of the JSE on Thursday, 1 November 2018 and, with an improved structure, is now positioned to optimise shareholder value.

The new structure achieves:

- Alignment of L2D with investors' preference for an internalised management function common to the listed REIT sector;
- Improved diversification in the L2D shareholder base and the improvement of liquidity over time;
- The ability to better execute the investment objectives by management and
- The elimination of any concern about the legacy of the PUT option.

2. Sectoral update

The retail sector

Although South Africa's economic growth was subdued over the last quarter, the retail centres continue to perform ahead of the market operationally. Management is focused on actively managing the centres to ensure their continued relevance and extracting continued growth. L2D remains cautious of the pressures affecting the South African retail environment and will respond to dampened growth through innovation and the ability to create experiences that continue to bring customers into the precincts.

Positive trading density growth of 3.4% at the end of September 2018 compared to 2.8% at 30 June 2018 and -1.8% at 31 December 2017 was reported. This excludes the new Midlands Lifestyle Centre and Botshabelo Mall.

Per centre trading density growth is outlined below.

TRADING DENSITY GROWTH (%)	SEPTEMBER 2018	JUNE 2018	DECEMBER 2017	JUNE 2017
Portfolio (Ex. Lifestyle Centre & Botshabelo)	3.4%	2.8%	-1.8%	-6.0%
Portfolio (Incl. Lifestyle Centre & Botshabelo)	2.5%	2.2%	-1.8%	-6%
Sandton City	5.2%	5.4%	-0.9%	-6.9%
Eastgate	5.2%	3.1%	-4.9%	-11.0%
Nelson Mandela Square	-0.5%	-3.3%	-9.5%	-17.1%
Melrose Arch	-5.6%	1.5%	6.6%	1.2%
Promenade	3.4%	4.1%	6.6%	6.3%
Midlands (Excl LC)	-0.7%	-0.9%	-2.8%	0.1%
Botshabelo	14.3%	14.1%		

In the period under review, portfolio leasing activity remained encouraging despite tough economic conditions. Some exciting new stores were opened across the portfolio improving the tenant mix and optimising trading at the centres, as well as lowering the portfolio vacancy ratio significantly from 4.3% in June 2018 to 1.9% (10,088m²) in September 2018. This is well below the sector average of 4.2% reported by SAPOA for the second quarter of 2018.

Renewals concluded as at September 2018 amounted to 43,541m² and leasing within the retail sector provided a positive reversion of 2.9%.

Edcon update

The Edcon Group (Edcon) comprises 5.7% in terms of gross lettable area (GLA) across the overall portfolio. Although the Edcon brands in the portfolio continue to show positive trading density growth, managing L2D's exposure to the market risks of Edcon remains a high priority.

L2D aims to continue to pragmatically reduce its Edcon exposure and management continues to engage with Edcon to ensure that the impact on the portfolio is minimised.

Development update

Development activities enable L2D to remain at the forefront of retail and leisure trends. Management's approach to redevelopments aims to enhance the relevance to customers through the creation of world-class, experiential places.

The following developments were recently completed:

- The Midlands Lifestyle Centre, which included the expansion of the mall from 56,000m² to 78,000m².
- The Sandton Food District refurbishment.
- The Stuttafords reconfiguration at Eastgate as well as at Sandton. The conversion at Eastgate involved the subdivision of the space to accommodate Dis-Chem, H&M and Mr Price and all tenants are currently trading according to expectations.

The office sector

The competitive environment in the office sector, an oversupply of space in the Sandton CBD 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 of 8.7% (29,008m²) in September 2018 compared to 9.7% in June 2018 remains below the SAPOA rate of 11.2%.

Additional leasing deals have been concluded that will further reduce this vacancy to 7.6%. The continued pressure in the office sector has resulted in a negative reversion of 13.6% in this component of the portfolio which comprises 1.73% of GLA to the overall office portfolio. Management continues to monitor the impact on the portfolio due to the negative reversions expected in the office sector.

3. Capital management

The acquisition of an additional R1.2 billion in assets from the Liberty Property Portfolio (LPP) was fully debt funded. The introduction of a conservative level of debt has enhanced the capital structure with a current loan-to-value (LTV) of 16%. One third of the total debt has been hedged at a rate of 9.60% NACS and management anticipate hedging to 75% as the targeted hedge ratio by Q1 2019. Increases in the interest swap curve since announcing the restructure in May 2018 has however increased the banks blended funding rate which could impact distribution growth in 2019 if these term rates remain at current levels.

4. Innovation and trends

Data analytics continue to enable the centres to set trends in the retail sector and management continuously investigates the potential implementation of measures to better serve customers' needs and preferences. The camera-based Syenap foot count system that is being rolled-out across the portfolio enables management to better understand customer activity thereby improving leasing and marketing strategies. A full year of data for Sandton City is now available, reflecting year-on-year foot count growth at 8.2% and encouraging positive foot-count growth on average at the other centres is seen.

This Black Friday, a 15% growth in foot count across the portfolio compared to 2017 was seen.

5. Board

L2D has recently welcomed Brian Azizollahoff as the Lead Independent Director and Zaida Adams as an Independent, Non-executive Director to the Board. Their appointments further strengthen the independence of the Board and both bring a wealth of wisdom and experience.

6. In conclusion

L2D remains committed to delivering sustainable and quality income distributions to investors by driving the portfolio's operational and financial performance. The asset management team continues to increase retail exposure to international tenants as a differentiator in the target markets - a strategy that has had a positive impact on growth and has enabled L2D to enhance its position as a retail leader.

The new leases concluded in the period are indicative of the continued strong retail demand at the centres. The portfolio remains well positioned for operational growth, supported by good quality underlying property income and supplemented by yield-enhancing developments.

L2D is committed to creating sustainable value for all stakeholders through a strategy of future proofing its assets.

The Company enters its closed period as at 01 December 2018. L2D's full-year financial results for the period ended 31 December 2018 are due to be released on SENS on Friday, 22 February 2019. A presentation of the Annual Results is scheduled to take place on Monday, 25 February 2019.

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