LIBERTY two°degrees

Operational update

13 September 2019

This voluntary report provides the traditional update on the trading performance of the portfolio as reported in the Liberty Two Degrees (L2D) interim results announcement released on 29 July 2019. At the time, trading data as at May 2019 was shared as this was the most recent information. In this report, trading density information for June 2019 is provided together with vacancy rates as at 31 July 2019. In addition, we provide commentary on the latest leasing initiatives and historical maintenance spend in the portfolio compared to the benchmark. The information has not been reviewed or reported on by L2D's external auditors.

While the South African retail environment remains on a slow recovery path with consumers under pressure given the continued economic downturn, our retail environments continue to gain trading momentum given their unique locations and tenant mix. Online retail has grown in appeal in South Africa, albeit not at the same pace as experienced in developed markets. However, the attraction of bricks and mortar stores complemented by unique experiential offerings continue to draw customers to our retail landscapes. To ensure that online lives together with the physical store, L2D is developing a seamless customer journey that will retain and grow our customer base. This is referred to as Noline, the merging of online shopping with bricks and mortar retailing in collaboration with tenants.

Building blocks

The continued implementation of the L2D strategic building blocks will provide impetus to the execution of our strategy.

Smart Spaces

(Embracing technology)

Creating smart environments by integrating technology to enhance customer's and retailer's experiences, securing our position at the forefront of innovative thinking

On-demand Spaces

(Time is valuable)

Creating customer convenience because time is a valuable resource that cannot be bought, borrowed or saved

Good Spaces

(Sustainable and flexible)

Ensuring minimal impact on the environment by adopting a flexible sustainability strategy

Inclusive Spaces

(Community place making)

Creating a feeling of common ownership through sharing of social values and promoting health, happiness, well-being as well as safety and security

Immersive Spaces

(Curating experiences)

Creating lively, human centric spaces, which bring together customers and experiences to create memorable stories

Retail trading update as at 30 June 2019

The table below details the annualised trading density and annualised trading density growth of the various assets within the L2D portfolio. Further to this, a comparison is made to the Clur Benchmark for annualised trading density. Annualised trading density is impacted by changes in both the turnover and as well as trading GLA of the retail centres.

	Annualised trading density to June 19	Annualised trading density growth June 19 (%)	Clur Benchmark June 2019	Centre vs. Clur Benchmark (%)
Trading density				
Sandton City	57 563	7.9	37 628	53.0
Nelson Mandela Square	57 770	6.5	34 984	65.1
Eastgate Shopping Centre	36 587	(1.1)	33 983[1]	7.7
Liberty Midlands Mall (excl. LC)	38 279	(0.2)	34 984	9.4
Liberty Promenade Mall	41 064	2.8	34 984	17.4
Botshabelo Mall	31 423	11.2	n/a	n/a
Portfolio (excl. LC and MA)	**44 892**	**3.3**	**34 777**	**29.1**
Melrose Arch	28 295	3.5	34 984	-19.1
Midlands Mall Lifestyle Centre	18 439	n/a	n/a	n/a

1 Clur Super Regional Benchmark excluding Sandton City.

- The overall annualised trading density growth of the portfolio excluding Melrose Arch (MA) and Midlands Lifestyle Centre (LC) was 3.3% as at the end of June 2019. This is a continued improvement from the December 2018 performance of 2.9% and June 2018 of 2.8% over the same asset pool.
- The LC is excluded from the statistics as it has not completed 24 months of trading in order to derive an annual growth rate.
- Trading densities across most centres have shown considerable improvement with Sandton City and Botshabelo reporting significant growth of 7.9% and 11.2% respectively. Nelson Mandela Square has shown a substantial turnaround with 6.5% growth vs. -1.3% and -4.7% for December 2018 and June 2018 respectively.
- This positive performance has been evident at a turnover level as well with the portfolio (excluding LC and MA) generating turnover growth of 4.4% for the 12 months to June 2019.
- The L2D retail portfolio continues to outperform the Clur Benchmark in terms of annualised trading density with Sandton City and Nelson Mandela Square posting a significant positive variance to the benchmark.
- Eastgate shopping centre is compared to the Super Regional benchmark excluding Sandton City to remove the impact of significantly higher trading density of Sandton City which skews the benchmark. When Sandton City is excluded from the super-regional benchmark, Eastgate's annualised trading density of R36 587/m² is 7.7% higher than the adjusted benchmark for the annual trading density of the super-regionals of R33 983/m².

Continued investment in maintenance capex

Continuous enhancements to our retail and office environments are core to our ability to attract and retain tenants as well as draw consumers to our retail centres. This is evident in that we have spent on average 2.2% of the value of the portfolio on maintenance capex over a five year period (2014 – 2018). The capex spend has further contributed to the value of the portfolio. This compares favourably to the MSCI Universe Benchmark of 1.5%.

Vacancy update

- The overall portfolio vacancy rate of 4.6% is largely attributable to the office sector. The retail vacancy as at July 2019 is 2.3%, this is a marginal improvement vs. the 2.4% vacancy rate reported as at June 2019. This remains well ahead of the SAPOA Q1 2019 retail vacancy of 4.2%. The overall office vacancy rate of 9.8%, also remains ahead of the SAPOA Q2 2019 office vacancy of 11.3%. The vacancy rate reduces including pre-let deals that will begin trading shortly. This is due to further leasing in both the retail and office sectors. Sandton City's vacancy rate remains low at 0.6% dropping to 0.5% after including pre-let deals.
- The overall vacancy rates as well as the vacancy rates including pre-let deals are presented in the table below.

%	Portfolio	Retail	Office	Specialised
June 2019				
Overall vacancy rate	4.6	2.4	9.8	0.0
Pre-let vacancy rate	4.3	2.1	9.2	0.0
July 2019				
Overall vacancy rate	4.6	2.3	9.8	0.0
Pre-let vacancy rate	3.9	1.5	8.9	0.0

Further leasing initiatives

L2D's retail centres continue to attract a wide range of exciting new tenants. The following are some of the new tenancies that have been secured for trading in the second half of the year. These new brands enhance the tenant mix of the respective centres and cater to the demand of their customers.

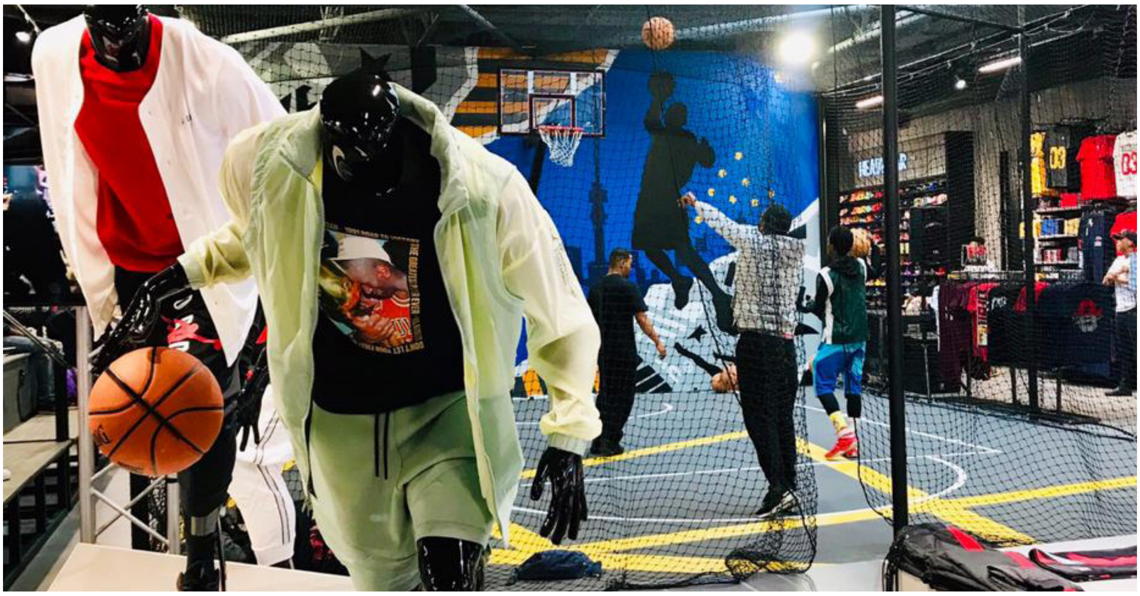
- **Sandton City** – Mango, Daniel Wellington, African Bank, Hydraulics AvantGarde, Capitec Bank, Flagship Sportscene, new Wimpy
- **Nelson Mandela Square** – Out of Africa, Watch Avenue, Moreschi Shoes, Mayur Indian Restaurant
- **Eastgate** – Flagship Cotton On, DMF, larger footprint Rage, new Mr Price Home, new Shesha with Hoops Lounge
- **Midlands Mall** – Fabiani, Sneaker Factory, Archive, RAIN Pop up, Mr Price expansion, Liberty Office
- **Promenade** – Soundmatch, Cross Trainer Kids
- **Botshabelo** – Sterns, Nedbank, Gadget Candy, London Keys, Assupol

With the re-launch of the renovated **Checkers Hyper**, **Sandton City** will also unveil brand new line stores together with an exclusive baby care facility called The Baby Care Lounge. This state-of-the-art facility includes breastfeeding booths, food warming facilities, nappy change stations and a kids play area. The new line stores launching include Capitec Bank, My Cotton Tree, a relocated and revamped Wimpy and Sportscene's flagship store. The new **Sportscene's flagship store** brings several experiential offerings to Sandton City including a basketball court, a DJ booth and a tattoo parlour.

Further leasing initiatives (continued)

Cotton On is relocating in **Eastgate Shopping Centre** to open their new flagship store which will be their second largest store in South Africa. This new offering will showcase their latest look and feel fitout in a 2 500m² store. Cotton On will occupy a portion of the space previously used by Edgars. Mr Price Home and Rage will occupy the rest of the space vacated by Edcon. These shops will be open and ready to trade by Q4 2019.

Liberty Group has entered into a lease agreement with **Midlands Lifestyle Centre** to occupy 758m² of space for their regional office. The commencement date is set for 1 October 2019 and Liberty will occupy 4% of the Lifestyle Centre GLA.



Top 5 retail tenant exposure

As at 31 July 2019, the portfolio exposure to the top 5 retail tenants in terms of portfolio GLA is as follows:

Tenant	Retail GLA exposure (%)	Portfolio GLA exposure (%)
Woolworths	9.2	4.9
Edcon	8.2	4.4
The Foschini Group	5.5	2.9
Shoprite Checkers	5.3	2.8
Massmart	3.8	2.1

The Edcon exposure above includes c. 5 600m² of GLA that has been given back at Eastgate. Edcon will pay rental on this space until the end of 2019. Edcon's exposure will reduce below 4% of the portfolio GLA when the new tenants start trading.

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

Conclusion

The resilience of the L2D portfolio is evident in the annualised trading density and turnover growth generated which continues to gain momentum evidenced by comparing June 2018 to June 2019. While the portfolio's vacancy rates have remained in line with May 2019, leasing strategies and engagements with prospective tenants are well underway which has resulted in the reduction in the vacancy rate including pre-lets. L2D has continued to deliver on the five building blocks initiated at the beginning of the year. Several initiatives have successfully been implemented with further strategies in the pipeline to ensure L2D is ready for the ever changing retail environment.

Corporate information

Liberty Two Degrees Limited

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JSE share code: L2D
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