

# Investor Update

Update for the nine months to  
30 September 2017



**LIBERTY**

two°degrees



Liberty Two Degrees (L2D) is a premier South African REIT that is predominantly retail focused. The portfolio is a sector benchmark in innovative asset management delivering consistent investment returns. We continue to focus on three key pillars:



### Resilience

Our iconic asset portfolio and strategy to actively manage our precincts enables us to remain resilient during the tough economic climate.



### Quality

The quality of our portfolio is unparalleled. We continue to attract and retain superior tenants, including leading global brands that are looking to penetrate the South African market and want to be represented in best of breed retail environments.



### Focus

Our investment proposition remains strong with a focus on creating and maintaining sector leading real estate assets. This is supplemented by selective development activity for growth, whilst continuing to drive efficiencies through deliberate cost management.

South Africa's stagnant economy and increasingly difficult operating environment remains challenging. The looming possibility of further credit ratings downgrades, political uncertainty and the volatile rand weighs heavily on the listed property sector and has dampened optimism in the broader market. These pressures result in fewer opportunities for growth

with existing assets feeling the strain of a reduction in consumer discretionary spending.

Our strategy over this difficult period is to continue to extract value from our assets through cost efficiencies and to support our tenants to deliver

on growth through innovative value propositions. Despite the difficulty, we have seen our asset performance continue to be resilient and in high demand from leading tenants.



# RESILIENCE



Our portfolio has seen a slight slowdown in the rate of decline of trading densities over the last quarter, complimented by a good demand for retail space. To further support this, we continually look to add value to our tenants' businesses and increasing investment in innovations that enhance consumer experiences, making our malls an attractive and preferred destination in the retail sector.

Our flagship Sandton City continues to trade well, with approximately half of the 8,008m<sup>2</sup> Stuttafords vacancy for which leases concluded to date. Dis-Chem is due to open in April 2018 and will be occupying 1,800m<sup>2</sup>. There are exciting plans for the balance of the space which will be announced in due course. Similar efforts are moving ahead at Eastgate Shopping Centre.

Despite trading densities being under pressure in the retail sector, the rate of decline in the portfolio has slowed down from -6.0% as at June 2017 to -4.7% as at September 2017. This marginal improvement in the rate of decline was mainly attributable to Nelson Mandela Square improving from -17.1% to -13.5%; Sandton City from -6.9% to -4.8% and Eastgate from -11.0% to -9.2%. While this is encouraging and may signal the beginning of an improving trading environment, we remain cautious and continue to look for a sustained growth profile.

Liberty Promenade in Mitchell's Plain remains the best performing asset for the year in terms of the sales environment, reporting turnover growth of 12% year on year at September 2017. Our leasing strategy has resulted in the reduction of vacancies from 3.9% at the beginning of the year to 1.3% currently (which include the pre-let deals).

## NEW LEASES CONCLUDED

The below table highlights some of the new leases concluded per retail centre since the investor site visit on 6 September 2017:

| Sandton City                  | Area (m²)    |
|-------------------------------|--------------|
| Kappa                         | 102          |
| Weylands Furniture            | 335          |
| Under Armour                  | 274          |
| Plein Sport                   | 84           |
| NYX                           | 86           |
| YSL                           | 28           |
| Urban Decay (pop-up)          | 30           |
| Ted Baker                     | 213          |
| Fabiani Women                 | 157          |
| Tommy Hilfiger (pop-up)       | 163          |
| Tommy Hilfiger Jeans (pop-up) | 140          |
| Hamley's (pop-up)             | 377          |
| Puma                          | 168          |
| Continental Linen (pop-up)    | 252          |
| Kimberly House (pop up)       | 110          |
| Longchamps                    | 133          |
| Paul Smith                    | 130          |
| Breitling                     | 35           |
| <b>Total</b>                  | <b>2,817</b> |

| Nelson Mandela Square | Area (m²) |
|-----------------------|-----------|
| Roco Mamas            | 255       |

| Melrose Arch      | Area (m²)  |
|-------------------|------------|
| Starbucks         | 350        |
| Indian Motocycles | 214        |
| Sally Williams    | 142        |
| The Munchery      | 70         |
| <b>Total</b>      | <b>776</b> |

| Eastgate shopping centre  | Area (m²)    |
|---------------------------|--------------|
| Mac Cosmetic              | 113          |
| Swarovski                 | 44           |
| Sportscene flagship store | 871          |
| Nike Superstore           | 159          |
| Pick n Pay Clothing       | 464          |
| <b>Total</b>              | <b>1,651</b> |

## QUALITY



Both L2D super-regional centres, Sandton City and Eastgate Shopping Centre, average net rentals continue to exceed the latest IPD (MSCI) benchmark data. The portfolio's regional centres (Liberty Promenade Mall and Liberty Midlands Mall) continues to present an opportunity to grow their income on renewals as a result of the lower rent to sales ratios.

Credit collection at the end of October 2017 was 95.9%, ahead of the portfolio target of 95.0%.



Brian Unsted, our Asset Management Executive, has been appointed to the Board of the Green Building Council of South Africa.

### **Cost management and sustainability initiatives**

We continue to drive cost management and look for efficiencies as part of our value enhancement strategy.

We have recently appointed an industry leading sustainability expert, and together with the appointment of Brian Unsted, one of our Asset Management Executives to the Board of the Green Building Council of South Africa, it supports our focus on numerous sustainability initiatives, including water balancing across the portfolio, as well as the optimisation of electricity consumption.

### **Eastgate Shopping Centre rates increase**

Eastgate Shopping Centre previously straddled the City of Johannesburg and Ekurhuleni municipalities. In the Provincial Gazette No. 252 of 28 July 2016, the boundary lines of City of Johannesburg were amended to exclude the two small ervens that Eastgate Shopping Centre occupies and are now included in the boundary lines of Ekurhuleni. The Ekurhuleni municipality has subsequently re-valued the shopping centre resulting in significant increase in assessment rates where we see the rate per square metre increasing from R38/m<sup>2</sup> to R65/m<sup>2</sup>. Although we aim to recover around 80% of the increase, it has a negative impact on our tenants, performance of the centre and the overall portfolio.





## Developments

Construction of Melomed hospital was completed in July 2017 and the tenant took beneficial occupation in August 2017. Final commissioning is expected in November 2017 with operations commencing in February 2018. A delay in the commissioning date has been occasioned by changes requested by the KwaZulu Natal Department of Health. The revised commencement date has been agreed with the tenant and though this has impacted the rentals expected for 2017, the overall development returns remain in line with original expectations.

Development work at Midlands Mall Phase III in KwaZulu Natal is progressing well for a March 2018 opening date, and the development is 83% let. Checkers and Planet Fitness have taken beneficial occupation and are currently fitting-out their premises.

The planned development activity at Sandton City is underway. This includes the redevelopment of Level 2 (Cinema area), a new area of the mall being dedicated to family fun, entertainment and food. This development will include the first Hamley's World in South Africa and a new cinema offering for which the leases have been concluded. The tenants are expected to trade in May 2018. The Sandton Food court will also be revitalised during 2018 to create a more appealing environment for shoppers. We expect minimal impact on tenants during this project.

## Innovation and trends

Our unparalleled expertise as an iconic real-estate property company serves as a sector benchmark in innovative retail management. We have embraced fintech capabilities to enable us to better serve our customers.

We have installed a new foot-count system, Syenap, at Sandton City, Nelson Mandela Square, Liberty Midlands Mall and recently at Eastgate. This system, uses a new methodology and captures foot-count data more comprehensively in comparison to our previous system. Syenap takes into account demographics, age groups, dwell times and areas. The data is accurate and enables asset management with strategic planning. These shopper insights are utilised for improving leasing and marketing strategies.

**Admyt**, a cashless and ticketless parking system, was recently rolled out at Sandton City and Nelson Mandela Square. Admyt is a license plate recognition system that streamlines shopping centre entry and exit. This will be rolled out throughout the portfolio.





**Wi-Fi** connectivity has been implemented across most of the assets in the portfolio. The introduction of Wi-Fi has enhanced the shopper experience for customers, allowing for free and fast Wi-Fi across our centres. The data analytics derived from the data collected allows us to better understand the make-up of our customer.

As we approach the festive season, the retail sector is gearing for increased trade volumes. Black Friday takes place on the 24th November and has arguably become the biggest shopping day on the retail calendar. We have observed that consumers are doing their Christmas shopping in November, during Black Friday, instead of holding off until December. As a result, there is an increase in sales in November in addition to the expected increases in December, with December sales tapering off slightly compared to periods prior to the introduction of Black Friday. This is a relatively new concept in South Africa with the number of retailers participating growing each year.

## Community initiatives

L2D's commitment to the community and especially the children were highlighted in two events in our portfolio. Read to Rise, a non-profit organisation, developed a children's literacy programme which was proudly supported by Liberty Promenade to engage with Grade 2 and 3 learners. The campaign included two components; the first being a literacy programme where 1,600 learners at 10 selected Mitchells Plain primary schools received new story books with the aim of encouraging reading. The second component was to create a school play competition where each school created a short play based on the book, Oaky the Happy Tree. The book was written by Athol Williams who was born and raised in Mitchells Plain.

The campaign was a big success and we remain committed to effecting real change within the nodes we operate in.

The United Nations Children's Fund (Unicef) recently unveiled a temporary statue that stands next to the famous Nelson Mandela sculpture at Nelson Mandela Square to commemorate Universal Children's Day. Hope, the statue of the young girl child symbolizes every child in South Africa and represents the power of children to shape the future.

## In conclusion

The performance of our assets remains resilient. We remain focused on enhancing value through improved cost management and creating environments that remain industry leading, affording our tenants the best platform to defend the current decline and respond adequately to changing retail trends while positioning our assets for growth.