

Liberty Two Degrees' enhanced customer experience strategy drives demand for retail space, resulting in positive momentum in performance

Highlights in the period:

- 100% distribution pay-out of 36.47 cents per share with distribution growth of 6.95%. Distribution impacted by c. 2c on unsuccessful Sandton City Municipal Valuation appeal
- Strong balance sheet maintained with loan-to-value of 24.42%
- Strong performance in retail operations
 - Portfolio footcount up 24.9% on FY21 (9.9% vs FY19)
 - Retail turnover up 21.9% on FY21 (18.3% vs FY19)
 - Retail occupancy increased to 97.9%
 - Portfolio reversions improved considerably to -10.4% from -25.9% while retail reversions improved to -9.7% (FY21: -26.0%)
- Notable recovery in average hotel occupancies
- Continued progress across all pillars to attain targets of Net-Zero status by 2030
- All L2D malls achieved Gold ratings for 2022 in the annual SHORE assessment, with Sandton City, Nelson Mandela Square and Eastgate achieving Platinum status

27 February 2023 - Reporting its annual results for the 2022 financial year which illustrated continued positive momentum in operational and financial metrics, Liberty Two Degrees (L2D) announced a 100% pay-out of the full-year distributable earnings of 36.47c per share (FY21: 34.1c), representing a 6.95% growth on the 2021 pay-out. The L2D Board is satisfied with the company's capital management efforts and that the core business remains sustainable.

Despite the unsuccessful outcome of the Sandton City rates appeal, which has resulted in a reduced distribution by circa 2 cents per share, L2D's performance in the period remains strong. Supported by its quality assets, L2D's performance in the period was buoyed by improved consumer confidence, an uptick in travel and tourism and an improvement general sentiment despite a difficult and uncertain economic environment.

L2D Chief Executive, Amelia Beattie comments; "Despite consumer inflation slowing for the third consecutive month in January, reaching its lowest level since May 2022, we continue to see a significant shift in consumer behaviour driving activity back into our physical shopping environments. Looking at the good performance achieved in our key financial and operational metrics in the period, customers are coming back to our environments and in so doing supporting our outlook for 2023. We are however not underestimating the current economic realities of increasing costs which are fuelled by economic pressures related to the power crises, above inflationary municipal charges, and the pressure on reversions. We remain focused and invested in the right things for our business and its longevity."

L2D strives to elevate its physical spaces to create a euphoric experience for customers, which has led to customers continuing to choose L2D's retail environments to spend their hard-earned disposable income. This can be seen in both the significant footcount and turnover growth over the year for 2022. In particular, the portfolio has generated R21.3bn in turnover for the year, with Sandton City and Eastgate Shopping Centre contributing a combined 64.7% to the total turnover. This is 21.9% ahead of 2021 and 18.3% ahead of 2019.



"Luxury remains one of our best performing categories within the portfolio and still plays a large part in differentiating our assets and more specifically Sandton City from competitors. Luxury brands play a key role in supporting our performance. We see that excluding the extraordinary impact of the luxury category, the portfolio is still up by 21.1% year-on-year and 13.1% vs. 2019" adds Beattie.

The portfolio saw footcount growth of 24.9% on 2021 and 9.9% on 2019. In the period L2D won a total of 29 awards at the 2022 Footprint Marketing Awards for excellence in shopping centre marketing, innovation and creativity as well as financial success. The activations across L2D malls over the festive period were well attended.

The portfolio occupancy level improved to 93.5% in December 2022 with demand for both retail and office space increasing. The higher demand for retail space resulted in improved retail occupancy rates of 97.9% (June 2022: 97.2%, December 2021: 96.8%). 344 leases (renewals and new deals) were concluded over the full year of 2022, equating to 84 443m². L2D's office portfolio represents only 26.2% of total portfolio GLA and therefore carries less weighting on the overall vacancy.

The decline in the office occupancy to 80% at December 2022 (vs. June 2022 83.3%), was due to the sale of the fully let Standard Bank building. The occupancy level in the office portfolio, on a like-for-like basis, has improved since June 2022 due to increased leasing in Sandton Office Tower, Atrium on 5th and Nelson Mandela Square offices. L2D remains focused on office leasing with various strategic measures in place.

The portfolio has made positive strides improving the reversion trend over the 2022 financial year. Rental reversions across the portfolio were -10.4%, with retail renewals -9.7% and offices -25.5% (which is a significant improvement to the negative reversions achieved in December 2021: portfolio -25.9%, retail -26.0%, office: -24.8%).

Commenting on L2D's financial overview Financial Director, José Snyders says "In the period, Net Property Income, excluding lease straight-lining increased by 7.27% to R568.6 million. This is supported by healthy lease income escalations and improved activity in the retail portfolio and the hospitality assets. Included herein, utility costs increased due to higher consumption which was compounded by the increased cost associated with load shedding. Municipal rates and above inflationary increases in tariffs for utility costs had a negative impact on the portfolio cost base. These costs and the consequential impact thereof on the cost of occupation for tenants is growing at an unsustainable rate".

Aided by the spike in tourism and economic activity, Snyders says the hospitality sector has continued to show signs of recovery with increased occupancies at the Sandton Sun, Sandton Towers and Garden Court hotels.

Snyders adds that L2D remains conservative in its capital management. "This is done to protect value during the current uncertainty and create a platform to deliver sustainable operations and position the portfolio for growth over the medium term. A sizeable amount of our capacity is now earmarked for investment in renewable energy and initiatives that create further efficiency in the portfolio – the yields on these initiatives are accretive to the portfolio as we aim to implement them over the next two years. With a loan-to-value (LTV) of 24.42% at 31 December 2022 (31 December 2021: 23.87%) and a healthy interest cover ratio at 2.95 times, we have sufficient liquidity to meet our operational needs and remain well within our banking covenants."

L2D's property portfolio was valued at R8.2billion as at 31 December 2022, a marginal 0.33% increase on the June 2022 valuation and a 0.39% decrease on the December 2021 valuation (on a like-for-like basis).

Our focused ESG strategy

The L2D ESG strategy is focused on driving its sustainability targets with continued progress across all pillars to attain its bold targets of Net-Zero status by 2030. "We've seen continued progress across all pillars to attain our bold targets of Net-Zero status by 2030. Overall water and energy consumption in Q2 2022 has surpassed the same period in 2021 yet remains well below the 2019 baseline and MSCI Industry averages. The waste journey is on track for 2022 with the portfolio diversion from landfill continuing to improve. The waste diversion from landfill has reached 89% for the portfolio at 31 December 2022" says Snyders.

Outlook

"While 2023 will present another tough operating environment, we aim to keep our portfolio the sought-after retail destination for customers and tenants, as well as an attractive investment proposition for stakeholders; delivering on the sustainability project milestones that will start to significantly alleviate cost pressures and focus on extracting value in our operational activities" concludes Beattie.

- Ends -

Enquiries

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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; 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.
- **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.