# Pre-close investor update and trading statement 2020

The new ABC of rebuilding for growth

LIBERTY

two°degrees

# Pre-close investor update and trading statement

Liberty Two Degrees (L2D) presents this pre-close investor update and trading statement ahead of the year-end closed period which commences on 1 December 2020.

# The new ABC of rebuilding for growth

As we close out 2020 and move into 2021, it is important that we have Agility in how swiftly we adapt to new ways of thinking and working, ensure that the teams go Back to Basics in building strong property fundamentals so that our quality assets deliver good results and continue to invest in the Communities in which we operate through our precinct focus and “Spaces” building blocks to lead us into the future.

# Agility

The impact of the Covid-19 pandemic on our customers, tenants, people and performance has necessitated an agile response and resulted in new ways of working and thinking which are focused on our strategic value drivers being the customer experience, tenant experience, people experience, capital and risk management strategy, financial outcomes and the good that we do.

# Back to basics

While the current conditions present a number of threats to the portfolio, a significant portion of the portfolio remains underpinned by basic property fundamentals – let the space to good quality tenants, collect the rental (and create sustainability through rental relief packages), keep the environment safe and secure, maintain the properties to retain the quality fabric, pay property expenses and drive efficiencies to reduce costs and focus on sustainability initiatives.

Operationally there has been an enhanced focus on cost control as well as on safety and security and all of our malls achieved a Covid-19 global compliance certification issued by Safe Shopping Centres.

In addition, we continue to look for new ways in our experiential offerings, but the core business remains the key indicator of recovery through tracking foot count, vacancies, collections, turnover growth and occupational health and safety. There has been an improvement in all of these indicators, apart from the portfolio vacancies, since the last operational update issued on 28 September 2020. Some good leasing activity during the period has, however, improved the portfolio vacancy rate when the pre-lets are taken into account.

As previously reported we have objected to the Sandton City municipal valuation and await notification of the date for the hearing of the valuation appeal by the Valuation Appeal Board.

In this report, the latest monthly turnover data is provided for September 2020 and vacancy rates at 31 October 2020 are disclosed. In addition, we provide an update on rent collections and rent negotiations as well as commentary on the latest leasing initiatives.

# Footcount

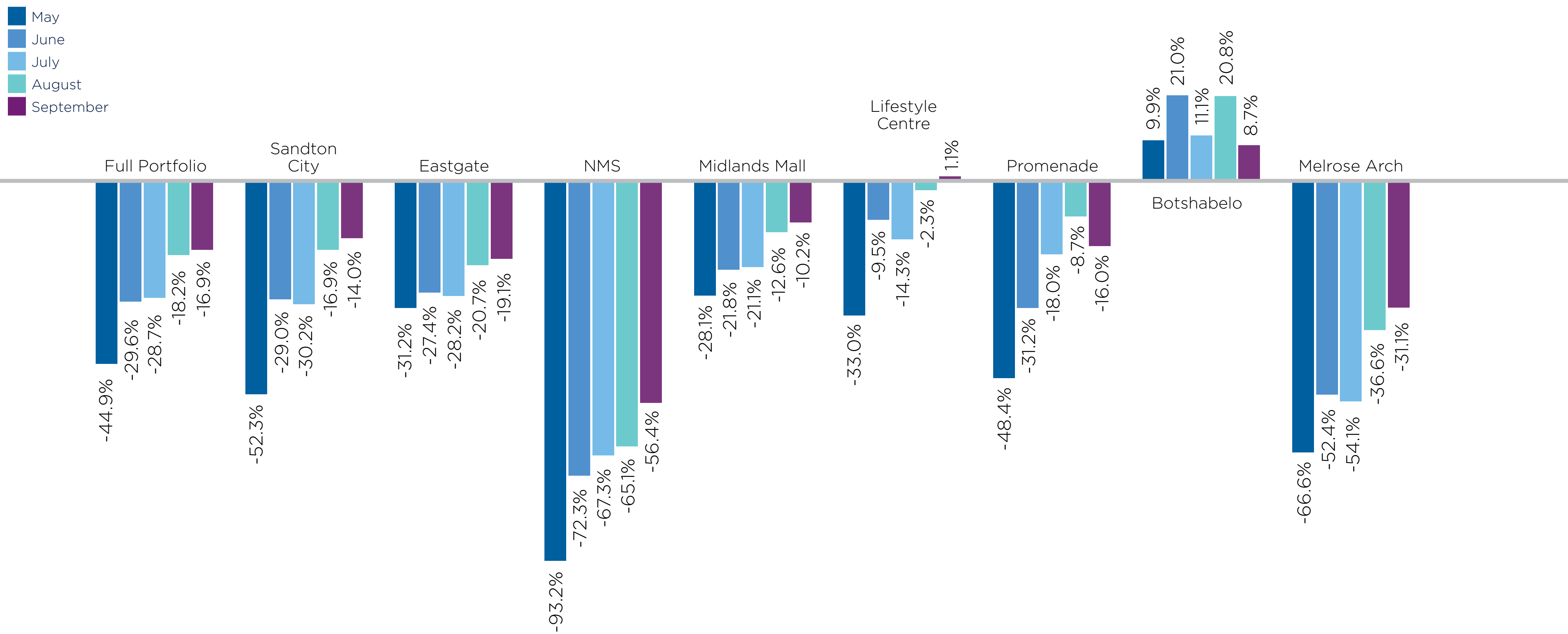
For the month of October 2020, the portfolio footcount recovered to 81% of 2019 comparative levels, with the top performers being Midlands Mall (98%) and Eastgate (96%). The total portfolio weekend foot count for the month of October 2020 (excluding Botshabelo Mall) was 93% of the comparative weekend foot count for the month of October 2019. The weekend footcount for October 2020 compared to October 2019 was 87% at Sandton City, 103% at Midlands Mall and 108% at Eastgate.

Heritage Day celebrations held across the portfolio along with the relaunch of the Piazza at Eastgate and live entertainment on the square at Nelson Mandela Square (NMS) were some of the creative initiatives that helped drive footcount to the malls by offering unique experiences for our customers. Further support for the restaurants at NMS includes free parking for patrons for up to three hours (until the end of November 2020) in an effort to boost their recovery.

# Retail operational trading update

The graph below reflects the most recent monthly turnover of the various assets relative to the comparative 2019 levels. We are pleased to note the continuing positive trend in monthly turnover with September 2020 turnover for the portfolio at 83% of the comparative September 2019 turnover. The 12-month rolling portfolio turnover at 30 September 2020 was 81% of the comparative 12-month rolling portfolio turnover in 2019.

## TURNOVER GROWTH VERSUS 2019



> "The portfolio has seen a steady improvement in turnover as the lockdown levels have been eased, allowing retailers to resume trading and drawing customers back to our retail offerings"

The portfolio has seen a steady improvement in turnover as the lockdown levels have been eased, allowing retailers to resume trading and drawing customers back to our retail offerings.

The top three performing categories in the third quarter, from a turnover growth perspective, were luxury brands, grocery/supermarket and technology. Luxury brands play a significant role in the portfolio contributing 8.1% towards total turnover but only account for 0.9% of portfolio GLA. The category was negatively impacted in the second quarter due to the inability to trade under lockdown level 5 but experienced a significant recovery in the third quarter driven by pent-up domestic demand.

# Hospitality

The Sandton Sun hotel is currently the only hotel in the portfolio that is operational and has been showing steady growth in occupancy rates. Its occupancy rate was 30.9% in September up from 20.9% in August. The Sandton Intercontinental Towers, Garden Court and the Convention Centre have been closed for operations since March 2020 to minimise the cost impact and their leases remain suspended with no rental payable until the hotels reach viable levels of operation. The co-owners (L2D, Liberty and Pareto) will mutually agree on the reinstatement date for the leases and remain liable for the fixed costs of the hotels and the Convention Centre during the lockdown.

The Sandton Convention Centre's lease with Tsogo Sun Hotels has been converted to a management agreement on a management fee basis and a new lease will be negotiated when market conditions are stable enough to enter into a long-term agreement. The Convention Centre will be open for the month of November 2020 for Presidential conferences and will be closed thereafter until restrictions limiting the size of the conferences are lifted.

# Vacancy update

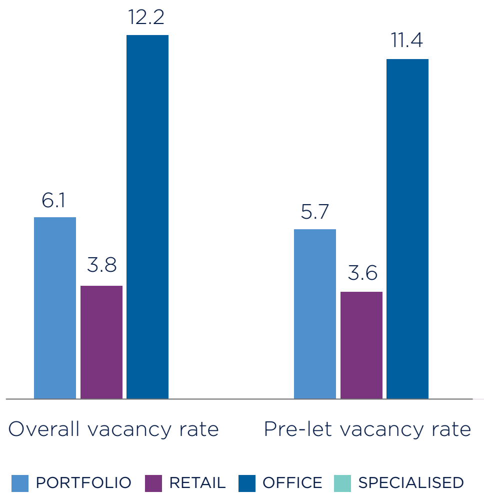
There has been a further increase in vacancies across the portfolio from 6.1% in August 2020 to 7.6% in October 2020. The retail vacancy rate has increased to 4.7% in October 2020 (3.8% in August 2020). Eastgate has remained stable, but remains the largest contributor to the retail vacancies mainly due to the premises previously occupied by House & Home and Mr Price Home that are currently vacant.

The leasing team continues to make headway through leasing activities and in October secured a further 900m$^2$ of space, which will reduce the Eastgate vacancy from 7.0% to 6.3% in the fourth quarter. Forever 21 at NMS officially closed in September 2020. The leasing team has responded with agility and has already secured new tenants for 80% of the space. Taking all pre-let deals into account, the retail vacancy rate reduces to 3.7%. This remains below the SAPOA Q2 2020 retail vacancy rate of 5.6%.

The office vacancy was 15.1% as at 31 October 2020 (12.2% in August 2020). Taking pre-lets into account, the office vacancy reduces to 12.2%. The most impacted assets include Melrose Arch (due to the takeback of a large portion of the STANLIB building) and NMS offices. The effects of Covid-19 continue to drive the downsizing of office space. L2D will move to the NMS offices in the first quarter of 2021 which will further reduce the vacancy and bolster confidence in the space available for letting – the new L2D office will be an example of how to integrate new ways of working in a precinct environment.

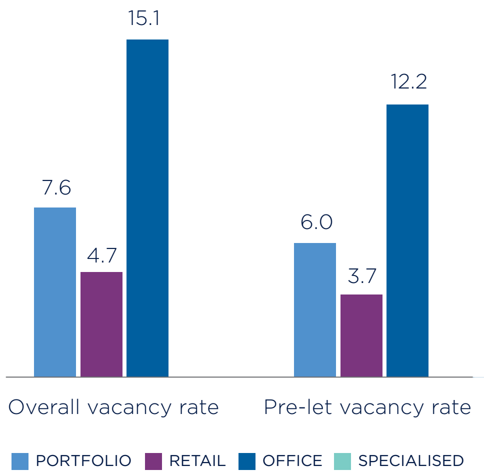
## Vacancy update (%)

**August 2020**




## Vacancy update (%)

**October 2020**



# Collections and rental relief update

We are pleased to report that rental collections based on the full amounts due and before any rental relief has increased to 84% at 31 October 2020 (last reported at 74% at August 2020). The improvement is a result of the successful conclusion of additional rental relief negotiations and the fact that almost all tenants are now trading. We expect the total arrears position to improve as we close out the final rental relief negotiations by the end of the year.

Rental relief negotiations from a tenant count perspective, and for the Q2 period, are 77% complete. Ongoing negotiations are currently taking place with the balance to ensure sustainable businesses going forward.

# Liquidity

L2D remains well capitalised with a slightly improved Group LTV of 20% (21.7% at 30 June 2020) following the repayment of part of a redraw facility. The total available RCF facilities of R400 million remain unutilised.

# Community-focused strategies

In executing our Smart Spaces building block, we envisage a significant increase in the technology deployed within our business and, by extension, its influence in how we run our business and how we implement our digital strategy. Patrick Masithela was appointed as our Chief Information Officer earlier in the year and has made good progress in driving the Smart Spaces initiatives.


Good Spaces remains focused on delivering on our Net Zero 2030 aspirations. While there has been excellent progress in many of the areas, Covid-19 has had a negative impact on our ability to be Net Zero waste ready by the end of 2020, and we will delay this until we are fully prepared in 2021. L2D continues to push the boundaries of business as usual and became a supporting member of the SA Plastics Pact and the first participating landlord to work towards a common vision for a circular economy for plastics. This includes tackling plastics waste and pollution at its source, with improved economic, environmental and societal outcomes overall. Eastgate shopping centre recently completed the Piazza upgrade, which included solar trees, and the solar farm which will be commissioned shortly. The solar farm is expected to generate 1 851 659 kWh of electricity in the first year of operation. The generation capacity will be used to power the lifts, air conditioning units and escalators.

To create deeper focus on the experiential offerings in our business, we have combined On Demand, Inclusive and Immersive Spaces under one umbrella called Interactive Spaces. Interactive Spaces is an opportunity for an interchange of ideas and experiences. The emphasis is on interaction, a fast pace, excitement, experience and stimulus. This will incorporate the work that was previously done in the individual building blocks and ensure integration from a customer experience perspective.

The malls in the L2D portfolio were recently awarded a total of 32 footprint marketing awards by the South African Council of Shopping Centres (SACSC). Five gold awards (out of a total of fifteen) went to Sandton City and a further eight silver awards and nineteen bronze awards were achieved across the portfolio. Sportscene in Sandton won the top spectrum award for best store design and this is testament to how we drive our tenants to deliver a compelling customer experience.

# Trading statement

We draw attention to the withdrawal of the 2020 financial year distribution guidance as advised in the update released on the JSE Stock Exchange News Service on 30 March 2020 as well as the trading statement released on 9 July 2020.

As previously reported, the Covid-19 pandemic and the secondary effects of the pandemic on the economy is having a severe impact on L2D's 2020 financial results and, as noted in our previous trading statement, distributable earnings for the year ending 31 December 2020 will be negatively impacted.

L2D uses distribution per share (DPS) as the relevant measure of financial results in accordance with paragraph 3.4(b)(vii) of the JSE Listings Requirements.

In terms of paragraph 3.4(b) of the Listings Requirements of the JSE, shareholders are advised that based on the expected decrease in distributable earnings L2D has reasonable certainty that the DPS for the year ending 31 December 2020 will be lower by more than 15% when compared to the full-year DPS of 60.43 cents for the year ended 31 December 2019. The full year DPS for the year ending 31 December 2020 is likely to be between 55% to 65% lower and to be between 27.19 cents and 21.15 cents.

The Board will consider the payment of a final distribution for the 2020 financial year once the full-year results are finalised. The regulatory requirements will be included in the factors considered.

# Conclusion

We have made good progress in negotiating the rental relief packages and are seeing a monthly improvement in both footcount and turnover.
We remain focused in our ongoing response to Covid-19 and the strategy that we are implementing in order to rebuild the **business for growth.**

The Company enters a closed period as at 1 December 2020. It is planned that L2D's results for the financial year ending 31 December 2020 will be released on SENS on Monday, 22 February 2021.
A presentation of the results is scheduled to take place on the same day.

The financial information contained in this trading statement has not been reviewed or reported on by L2D's auditors.

This Pre-Close Investor Update and Trading Statement is also available at: https://www.liberty2degrees.co.za investors/results-centre/

Johannesburg
27 November 2020

# Corporate information

**Liberty Two Degrees Limited**
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