

LIBERTY TWO DEGREES LIMITED

(Registration number: 2018/388906/06)

JSE share code: L2D

ISIN: ZAE000260576

("L2D" or "the Company")

Pre-close investor update

L2D presents this pre-close investor update ahead of the year-end closed period which commences on 1 December 2021.

Rebuilding for growth

The latest operational data shows some further recovery after the easing of trading restrictions from August 2021. Key operational indicators including; customer visits to our malls, tenant occupancies, rental collections and turnover growth have shown encouraging improvement. These positive signs in operational metrics must be seen within the context that 2020 is not directly comparable, and in some cases, we refer to 2019 as a base.

The outlook going forward needs to be tempered with the uncertainty and volatility that remains given Covid-19's impact and the economic forecasts for our economy. Taking these factors into consideration, prudence should be applied when considering the direct expected impact on net property income growth most especially for tenants in the hospitality, office and restaurant categories. The impact of the newly discovered Covid-19 variant is unknown at this early stage but is a cause of additional uncertainty particularly in respect of its impact on the tourist season.

In this report, the latest available monthly turnover data as at September 2021 and footcount and occupancy rates at 31 October 2021 are disclosed. In addition, we provide an update on rent relief and collections, commentary on the latest leasing initiatives and our debt refinancing.

Retail portfolio turnover and footcount

Positively Q2 2021 saw footcount returning close to 2019 levels. July was impacted by the stricter lockdown measures implemented at the end of June 2021, as well as the social unrest that resulted in the precautionary closure of Midlands Mall and reduced trading hours at the other malls to ensure the safety of tenants and customers. It is promising to see an increase in August and September footfall with October not only being well up on 2020, but relatively close to 2019 levels.

Footcount recovery

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
2021 footcount as a percentage of 2020 (%)	72.1%	77.2%	99.4%	579.2%	219.7%	162.3%	114.4%	128.3%	123.3%	118.0%
2021 footcount as a percentage of 2019 (%)	75.9%	79.2%	74.5%	98.0%	99.0%	89.8%	68.4%	87.5%	91.3%	95.5%

Note: The total footcount excludes Botshabelo

Despite the turbulent start to the third quarter of the year, the portfolio turnover has seen a sound improvement in September with growth of 5.9% over September 2019. Coupled with the fact that footcount is down by 8.7% compared to 2019 in September, this is indicative of fewer visits but an increase in spend per visit particularly at Sandton City given the demand for luxury brands.

Sandton City's monthly turnover in particular is up 34.4% vs September 2020 and has exceeded the comparative 2019 level by 16%. Comparing the 9 months in 2021 to 2019, Sandton City's exceptional performance throughout the year is driven largely by the luxury brands, grocery and technology categories. The food service category continues to struggle across the portfolio and remains under pressure.

Year to date the retail portfolio is 29.3% above 2020 and only 6.8% below 2019.

Portfolio turnover trend

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
2021 turnover as a percentage of 2020 (%)	79.3%	88.8%	127.1%	821.8%	188.6%	122.5%	115.1%	117.6%	127.2%
2021 turnover as a percentage of 2019 (%)	83.8%	93.2%	93.6%	94.5%	104.0%	86.3%	82.0%	95.2%	105.9%

Hospitality

The Garden Court resumed full trade in October and achieved an occupancy of 25.3%. The Sandton Sun is trading with an average occupancy of 63.3% for the month of October 2021. The hotel continues to see an improvement in occupancy due to the high demand on weekends for leisure travel, with an average occupancy of 74% on Fridays and Saturdays. Sandton Intercontinental Towers remains closed for operations to minimise the cost impact and the lease remains suspended with no rental payable until the hotel reaches viable levels of operation.

The Convention Centre has hosted 41 events during the year; however, the intermittent lockdowns have restricted the number of people allowed to operate. The latest adjusted level 1 restriction allows for 50% of venue capacity and the increased level of enquiries are promising.

Occupancy update

The portfolio occupancy level has improved slightly to 93.8% in October 2021. The retail portfolio occupancy level is at a pleasing 97.3% taking into account future pre-lets and remains ahead of MSCI benchmarks.

The office sector continues to remain under pressure with an occupancy of 86.1% in October 2021. The marginal decrease from June 2021 is driven by additional vacancies at the Melrose Arch Offices and Sandton City Office Tower.

Occupancy rate – October 2021 vs June 2021 and December 2020

Description	Portfolio			Retail			Office			Specialised		
	Oct 21	June 21	Dec 20	Oct 21	June 21	Dec 20	Oct 21	June 21	Dec 20	Oct 21	June 21	Dec 20
Overall occupancy rate	93.8%	93.7%	93.3%	97.1%	96.7%	95.3%	86.1%	86.6%	87.6%	100%	100%	100%
Pre-let occupancy rate	93.9%	94.0%	94.1%	97.3%	97.1%	96.8%	86.2%	86.7%	87.4%	100%	100%	100%

Leasing initiatives

The portfolio continues to see demand for space with 92 new deals and 153 renewals concluded across the portfolio as at 31 October 2021. This equates to a total of 130,351m² of leasing activity which represents 13.5% of portfolio GLA. We have experienced negative reversions at 24.2% across the portfolio and we are focused on securing the best possible deals, with the long-term sustainability of our portfolio and tenants in mind. The negative reversions are due to the challenging operating environment as a result of the ongoing Covid-19 impact. Retail assets most impacted include Sandton City, Melrose Arch and Eastgate with the Umhlanga and Melrose Arch Offices further contributing towards this. These renewals relate to 64.5% of the GLA expiring for the 2021 financial year and only 11.2% of the full portfolio GLA. Renewals concluded as a percentage of total portfolio GLA: retail 3.8%, offices 1.4%, specialised 6.11%.

Year to date October 2021		Portfolio	Retail	Office	Specialised
New deals	Number of deals	92	74	18	-
	GLA sector (%)	2.5%	3.8%	1.4%	-
	GLA (m ²)	23,680	19,336	4,344	-
Renewals	Number of deals	153	133	19	1
	GLA sector expiries (%)	64.5%	44.4%	48.3%	100%
	GLA (m ²)	106,671	35,969	12,792	57,910
	Reversion (%)	-24.2%	-24.5%	-22.2%	0%

Rental relief and collections update

Rent relief still being closed out largely pertains to the restaurant and fast-food categories that remain challenged. As at 30 September 2021, 96.3% of negotiations with tenants have been concluded (June 2021: 93.2%). Rent relief finalisation remains a critical focus and L2D continues to work with the tenant categories most impacted.

Rental collections based on the full amounts due and before any rental relief are reported at 108% for October 2021 (June 2021: 112%). August 2021 saw lowered collections of 97% resulting from the social unrest impact in July, encouragingly however, collections have since improved with average collections for the year reported at 107%.

Debt refinancing and Liquidity

We successfully refinanced R500 million of term debt which expired at the end of October 2021 for a further five-year term and added an additional R100 million term debt to fund any long-term capital commitments. Post the refinance, our interest rate hedge ratio is 77.7% (30 June 2021: 79.2%) and the weighted average cost of debt is 7.84% NACA (30 June 2021: 7.92%).

L2D remains well capitalised with a low LTV of 25.17% (30 June 2021: 23.97%).

Development initiatives

Given the uncertainty due to Covid-19, 2021 was a year for planning and preparing for new developments. We were able to successfully initiate and in principle agree and plan for the following within the development portfolio:

- At Sandton City, the masterplan is in the planning stage for the precinct and is being workshopped into possible new developments and executable packages for the future. This includes a rooftop family

development comprising a family restaurant and urban farm and is scheduled to commence when a suitable restaurant tenant is identified.

- At Eastgate the focus has been on the rezoning and subdivision of erven in preparation of future developments, and our aim is to launch the marketing of phase 1 of the residential scheme in the fourth quarter of 2022, subject to no objections in the town planning process.
- At Promenade a 1MW solar project was initiated and construction is scheduled to commence in 2022.

Digital transformation

We believe in making sure that the physical environment lives alongside the digital environment and to use the improved insights to give us the confidence to make real-time data-driven decisions. We are running a pilot with global prop tech company Mallcomm for a potential solution to assist us in creating a bespoke digital tenant engagement platform for our retail property portfolio.

Conclusion

Although we see encouraging signs of recovery in turnover across the portfolio, the uncertainty in the macro environment coupled with the continued strain on the office and hospitality sectors as well as negative rental reversions will result in a deferred return to pre-Covid net income levels. We continue to focus on keeping our malls full, with our quality assets and tenants underpinning the demand for L2D space and trading levels, supported by the improvement in retail fundamentals. We remain focused on executing upon our operational strategy, capital and risk management and maintaining high levels of health and safety across the portfolio.

The Company enters a closed period as at 1 December 2021. It is planned that L2D's results for the financial year ending 31 December 2021 will be released on SENS on Monday, 28 February 2022. A presentation of the results is scheduled to take place on the same day.

The financial information contained in this pre-close investor update has not been reviewed or reported on by L2D's external auditors.

This pre-close investor update is also available at:
<https://www.liberty2degrees.co.za/investors/results-centre/>

Johannesburg
26 November 2021

Corporate information

Liberty Two Degrees Limited

Date of registration: 10 July 2018

JSE share code: L2D

ISIN: ZAE000260576

(Approved as a REIT by the JSE)

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