L2D poised for a strong festive season

Sandton City shines as company cuts rate of vacancies

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Liberty Two Degrees (L2D), part-owner of Sandton City, Melrose Arch and Eastgate, looks set to round off a good 2018 with a strong festive season, as careful management of its prized assets has led to low vacancies across its portfolio.

L2D decreased its retail portfolio vacancies to 1.9% at the end of September from 4.3% at the end of June, while the national average sits around 4.2%, a report for the third quarter of 2018 released on Wednesday showed. Much of the decrease in the overall retail vacancy was driven by L2D managing to fill Sandton City for the first time.

Metope investment analyst Kelly Ward said the asset managers at L2D had done a "phenomenal job" filling Sandton City while the economy was in a recession. "A zero-percent vacancy is unusual, and well done to them in this challenging environment. Especially interesting for the market is the new international tenants, which will no doubt draw in foot traffic and differentiate the centre," Ward said.

L2D also made strides in lowering vacancies across its office portfolio, which fell to 8.7%, or 29,008m², at the end of September from 9.7% at the end of June. This remained below the SA Property Owners' Association rate of 11.2%.

TRADING DENSITY

The company enjoyed positive growth in trading density – the extent to which revenue is generated per square metre – at its key assets, despite tough trading conditions, according to L2D CEO Amelia Beattie.

The trading density of the fund's portfolio grew 3.4% during the quarter compared with 2.8% for the second quarter and -1.8% for the fourth quarter of 2017. This excluded L2D's newly trading Midlands Lifestyle Centre and Botshabelo Mall.

Sandton City's trading density growth was 5.2% in the third quarter, as was Eastgate's.

BLACK FRIDAY

The fourth quarter had begun strongly and the Black Friday retail sales day had been strong for L2D, the company said. There was 15% growth in foot count across the portfolio on November 23 compared with Black Friday in 2017.

Beattie said she expected an improved 2018 festive season.

Jason Muscat, a senior industry analyst at FNB, was also fairly optimistic about the upcoming festive season.

"The 2018 festive season is likely to be better than that of 2017, but not by much.

"Wage settlements have been ahead of inflation, providing real income growth, and inflation itself remains relatively benign as VAT pass-through has been muted, providing better retail sales conditions," he said.

"There is also likely to be relief from a sizeable fuel price cut at the beginning of December, which will free up some disposable income for consumers," Muscat said.

"One offsetting factor, however, is the 25 basis point interest rate increase at the end of November, which will blunt a good deal of this tailwind."

Beattie said L2D was on track to deliver its forecast 60c dividend per share for the year to December 2018.

L2D, which listed in December 2016, initially let the market down when it only managed to deliver a dividend of 59.22c per share for its 2017 financial year, despite promising to return 65.07c per share.

However, it then forecast in February that it would grow its dividend at just over 1% to 60c a share in 2018.

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Positive: Sandton City's trading density growth was 5.2% in the third quarter. /File picture