

### L2D welcomed initial national lockdown

**S**outh Africa continues to grapple with the effects of COVID-19, and Liberty Two Degrees (L2D) welcomed the initial national lockdown enforced by the National Coronavirus Command Council as the most effective way to limit the spread of the virus and save lives.

But with a rapidly growing impact on the global economy, financial markets are taking strain and businesses are being severely negatively affected locally. L2D is now part of an urgent appeal to President Cyril Ramaphosa to re-open the economy in a responsible manner so that a sustainable South Africa can be created.

“L2D is a South African retail-focused REIT,” says L2D CEO Amelia Beattie. “To date, the implementation of our business continuity measures has worked according to plan as we strive to maintain adherence to government guidelines in keeping people as safe as possible across all touch-points in our business.

“The impact of COVID-19 and the lockdown on our business is having severe impacts over a wide range of stakeholders. We have communicated to the market that the turnover of retail tenants has been negatively impacted by the lockdown, and the subsequent drag on the rental income in our business. Given the current difficulty in estimating the exact impact on net property income, we have withdrawn our distribution guidance for the 31 December 2020 financial year.

“Considering current information in a very uncertain period, our conservatively managed balance sheet with gearing of 18% affords the business a significant buffer to the cash-flow impacts expected in the short and medium term.

“Prior to the national lockdown, South Africa experienced a low-growth economy and a sluggish retail environment – key contributors to the elevated pressures faced by consumers and tenants. L2D, however, delivered a credible set of financial and operational results for the 2019 financial year in a difficult environment. This result was due to the underlying quality of the assets, supported by the drive and passion of the team in the implementation of the key strategic initiatives. The most notable of this is our low vacancies of 2.3% at the end of December, and the trading density growth of 3.6% led by Sandton City at 9%.”

### Commercial property industry faces certain challenges

As has been mentioned by Estienne de Klerk, the commercial property sector makes a significant contribution to South Africa’s society, economy, tax revenue and employment figures. It is responsible for more than 300 000 jobs – directly, and indirectly in sectors such as security, cleaning, hygiene and technical services, as well as building and construction.

The industry currently faces a number of challenges arising from the COVID-19 pandemic. Many retail businesses were hard-hit during this time, as they complied with South Africa’s lockdown regulations in the face of COVID-19. Retail businesses were forced to temporarily halt operations altogether, while those that are considered essential – such as supermarkets and pharmacies – faced a host of new challenges to create a safe shopping environment for customers and staff.

In its quest to address industry-related challenges arising from COVID19, the PI Group, formed by bringing together members of the major representative bodies for real estate in South Africa, announced an industry-wide assistance and relief package for retail tenants that are hardest-hit by the pandemic. Although its primary focus is on SMMEs across all sectors, the group has also included providing support to large retailers affected by the lockdown.



Liberty Two Degrees CEO Amelia Beattie

**“We continue to regularly engage with tenants, service providers and the property industry in assessing the impact of the lockdown on the business, and in assessing measures that may mitigate the impact on all stakeholders.”**

**“L2D forms part of the Property Industry Group, which seeks to address the property industry-related challenges arising from the COVID-19 pandemic. This complex social, political and economic time calls for strong and decisive leadership. L2D is also privileged to be part of the initiatives of our parent companies, the Liberty and Standard Bank groups. The leadership support of these organisations has meant that we have been able to focus on direct initiatives for our business during this time.”**

Furthermore, South Africa has recently seen a downgrade of its investment credit rating to junk status, which has been followed by a sell-off of local listed equity and bonds.

### **Cautious optimism over new opportunities**

“We head into a more cautious new normal that presents our business with new opportunities,” says Beattie.

“To counter the retail trends, and to futureproof our assets and set them apart in the market, in 2018 we introduced five strategic building blocks: smart spaces (embracing technology), on-demand spaces (creating the ultimate convenience), good spaces (which minimise impact on the natural environment), inclusive spaces (promoting health and wellbeing), and immersive spaces (creating vibrant and diverse spaces with experience at the heart). The five building blocks sharpen the focus of our efforts and business activities on strengthening the resilience and performance of our portfolio in challenging market conditions, creating unique experiences in our environments to attract customers to our assets, driving organic growth, and countering retail trends while futureproofing our assets and preparing the business for an ever-changing retail environment.

“The ongoing implementation of our strategic building blocks has set our portfolio in good stead and has provided a solid support to our asset base in a challenging environment. Our 2019 operational results are testimony to this, and we aim to accelerate this work into the future.”

### **Adherence to government guidelines**

L2D strives to maintain adherence to government guidelines in keeping people as safe as possible across all touch-points of the business. The company has established a Crisis Leadership Team to direct its response to the COVID-19 pandemic and to promote the wellbeing of the entire community. The objective is to support L2D’s customers, tenants and service providers, as well as safeguard its employees and assets.

“L2D is committed to contributing to society’s efforts to curb and slow the spread of the virus,” says Beattie. “In response, we have implemented several measures including, with immediate effect, additional hygiene protocols throughout our portfolio. This is supported through visible and focused communication on physical-distancing practices.

“To support our people and keep them safe, our head office remained closed during the national lockdown while deep-cleaning and fogging measures continued. All L2D people are enabled to work efficiently from home, while regular team engagements remain in place through virtual platforms.

“Our team engages regularly on new ways of working, with a collective effort in place to explore what will and will not work in the new normal.”

### **Taking work patterns into the workplace post-pandemic**

“We have had to embrace physical-distancing practices while ensuring business continuity,” says Beattie. To this end, the company has embraced new ways of working, which present numerous opportunities. These include:

#### **In the short term –**

- Measures that ensure safety such as hygiene, cleanliness and sterilisation of all office equipment, as well as testing of all employees as a safety precaution. This includes, among other things, making the office a place of engagement and experiences rather than a place to work.

### **In the medium term –**

- Gradually changing the office space to allow for physical distancing in line with World Health Organization parameters. This means spreading out workstations, and making them less formal and more collaborative

### **In the long term –**

- Continuing with measures currently in place to ensure the safety and security of all, while adapting policies and using technology to work smarter.

L2D has also, in the process of adapting, adopted five key trends as recommended by Robert Walters, to help bridge the gap between employer and employee expectations. These are:

#### ***1. Thinking holistically when building a smart workplace for the future***

Creating a total solution around the employee experience to successfully establish a smart workplace.

#### ***2. Identifying the business focus and employee concerns in the digital workplace***

Understanding employee concerns and creating a work culture that inspires and encourage the workforce to embrace the change.

#### ***3. Adjusting the mind-set to empower employees with autonomy through flexible working***

Recognising the needs of the employees and finding ways to mitigate managers' concerns are essential if the policy is going to meet individual needs and drive employee motivation.

#### ***4. Understanding that user experience is key to achieve an efficient workspace***

Most employees prefer a semi-open space, with a combination of shared and private areas, as it allows for both collaboration and for more privacy to focus when needed.

#### ***5. Communicating the smart workplace effectively to attract talent***

Promoting the smart workplace is an effective way for businesses to attract new talent by including details in their external communications, such as on their website and at job interviews.

"We have also endeavoured to encourage a buddy system among our people, where people are paired up to ensure each other's wellbeing," says Beattie. "We aim to foster a platform that encourages openness over and above the typical human capital setting.

"As supporters of the International Mind the Gap campaign (which calls for physical distancing rather than social distancing), while we can't physically be present and are called to be apart, L2D calls for unity – an expression of community by standing in solidarity. We call for each one to reach one. While we will remember this to be a time when we stayed at home to develop a new skill, finish a book, plant a tree, nurture our children, form a new habit, and heal the Earth, we believe that generosity is infectious, and that in the spirit of solidarity the learnings should be extended to those who are not afforded the same opportunities.

"We aim to reflect and repurpose, making truly experiential spaces that benefit future generations a reality far beyond our time. And we want to extend this notion to our current circumstances while serving humanity right now, taking into account our new-found normal.



**"We aim to reflect and repurpose, making truly experiential spaces that benefit future generations a reality far beyond our time."**

**“The next six months will continue to bring fast-paced change, and we will need to adapt with agility and care.”**

“We are committed to stand in solidarity, to give back, to do things differently, to forge new experiences, and to forge a new economy as called for by our president. Our shared task, as we stand in solidarity, is to be a responsible corporate citizen for the good of our nation.

“The next six months will continue to bring fast-paced change, and we will need to adapt with agility and care. We need to keep our eyes open for opportunities – but it will remain important to continue with the practices that have been put in place during the lockdown. The most important thing will be to remain focused on what businesses are about, and to be disciplined about executing the basics well. The next six months will remain tough, but we need to see it through by ‘holding our nerve’ and acting with humanity.

“Now more than ever before, our chief responsibility as leaders is to look after the environments that we have been entrusted with. The past two months have been about ruthlessly fighting for our businesses, and the health and wellness of all our people; however, we have also been able to form strong new relationships and work together in ways that were there before. I would like to see this continue as we navigate through the new world and the new normal. I hope the planet continues to share its life and its beauty, but its message to us is clear: ‘You are not necessary. The air, land, water and sky are fine without you. When you come back, remember that you are my guests, not my masters.’

“Our journey into unprecedented change continues, and the wise words of Viktor Frankl may provide some relevance in this time

*‘When we are no longer able to change a situation, we are challenged to change ourselves.’*

*‘In some way, suffering ceases to be suffering at the moment it finds a meaning, such as the meaning of sacrifice.’*

“It is therefore of critical importance that we lead our organisations and the property sector at large in a new purpose – and that we make that purpose real and tangible for every community it serves.”

### **Every crisis presents an opportunity**

**A**ccording to Ben Kodisang, founder and CEO of ALT Capital Partners, “Every crisis presents an opportunity, depending on your vantage point. The COVID-19 pandemic will be bad for large retail centres, but not so bad for convenience and local centres. Offices will be under pressure down the line as companies start adjusting their behaviour post-COVID-19. Residential and housing will do well as the systematic backlogs in this space start to be addressed.”

Kodisang’s reaction to the initial lockdown was that it made sense for medical reasons, and allowed us as a country the space to prepare ourselves for the wave that is about to come. “But as we had into Alert Level 3, I am hugely concerned about the economic impact of the lockdown, as well as the potential social unrest if the economy is not opened soon enough in all the low-risk areas and carefully in the high-risk areas,” he says.

“The lockdown has stopped our capital-raising activities and created a liquidity crisis within our underlying investments. If there are further delays in opening up, we will suffer a few casualties from the current liquidity situation.

“South Africa was already in a recession before the lockdown. The combination of Eskom’s load shedding (which resulted in inconsistent power supplies) and our credit



ALT Capital Partners founder and CEO Ben Kodisang