MONEY & INVESTING

Mega-mall tills still ringing

Gucci sneakers anyone? Sales at luxury brands are booming despite the demise of the suit and tie

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Nelson Mandela Square: Co-owned by Liberty Two Degrees. Picture: Supplied

The suit and tie may be dead, but the latest Louis Vuitton tote or a coveted Patek Philippe watch has lost none of its cachet among the super flash.

It’s a trend underscored by results released this week by retail-focused Liberty Two Degrees (L2D), co-owner of some of Gauteng’s smartest shopping precincts, including Sandton City, Nelson Mandela Square, Melrose Arch and Eastgate.

The JSE-listed real estate investment trust reported a 37.6% surge in sales turnover in its luxury brands category in the fourth quarter of 2020 (year on year).

For 2020 as a whole, the turnover of high-end tenants grew by an equally robust 27.7% year on year.

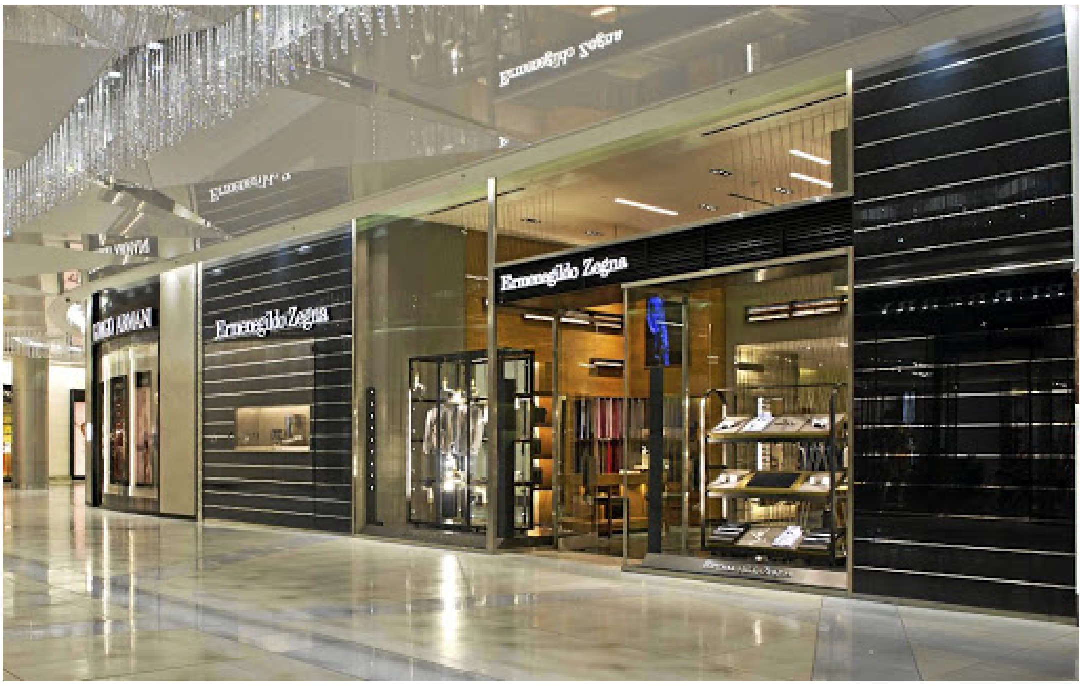
That's despite a two-month closure of shops during the hard lockdown of April and May, and many international brands running out of stock in the second half of 2020 due to supply chain and import challenges.

L2D CEO Amelia Beattie says it seems the money that pandemic-weary South Africans would have spent on overseas holidays and social events last year was instead splurged on luxury goods — high-end fashion accessories in particular.

"The queues in front of Louis Vuitton, Gucci and the like at Sandton City's Diamond Walk clearly [told] a story of wealthy consumers rewarding themselves with retail therapy at a time when overseas travel wasn't an option," she says.

Another noticeable new shopping trend in L2D's malls is what Beattie refers to as "extreme casualisation" — consumers ditching formal wear for a more relaxed look. That's fuelled demand for athleisure apparel, a trend that's expected to continue to gain traction. "I'm not so sure we will ever go back to wearing a suit and tie, even when people return to the office," she says.

But stronger demand for luxury fashion items did little to boost L2D's overall earnings.



Sandton City's Diamond Walk: The go-to for luxury shopping. Picture: Supplied

Distributable income and dividend payouts for the year to December tumbled 46.5%.

The hefty dividend cuts are mostly the result of significant rental relief packages (R112m) granted to tenants last year, as well as rising operational costs.

Beattie says the company cannot sugar-coat the fact that lockdowns and trading restrictions caused "real strain" for retailers and landlords.

And she doesn't expect L2D's business to recover to pre-Covid levels any time soon, given lingering uncertainty about the vaccine rollout and the possibility of a third Covid wave.

"We have to be realistic, and the road to recovery is likely to be a lengthy one," she says.

However, there has been an encouraging improvement in turnover and foot count at L2D's malls in the fourth quarter. Sales turnover across L2D's eight retail centres recovered from a year-on-year slump of 54% in April to a 9% decrease in December. At Sandton City, December 2020's turnover was virtually back to 2019 levels, while Botshabelo Mall near Bloemfontein, which targets mostly lower-income shoppers, was already up a healthy 11.4% in the fourth quarter. For the portfolio as a whole, turnover growth was 22% down in 2020.

Beattie argues that the better than expected recovery in foot count and turnover growth in L2D's portfolio belies the popular notion that large malls have lost market share to smaller convenience and neighbourhood centres. "The quick recovery at Sandton City, for instance, underlines the resilience of super-regional malls in prime locations," she says. "Our malls offer shoppers all the variety they want in one place."

Another positive is that vacancy levels ended 2020 below 5% (4.7%) — albeit up from 2.3% in December 2019.

L2D KEY METRICS

	Dec 2020	Dec 2012	Difference
Dividend per share	32.33c	60.43	-46.5%
NAV per share	R7.71	R9.65	-20%
Portfolio value	R8.5bn	R10.1bn	-15.8%
Retail vacancy	4.7%	2.3%	+105%
Foot count	73m	51m	-30%
Tenant rental arrears	R96.4m	R30.8m	+213%

Source: L2D Annual Results Dec 2020

That suggests that fewer struggling tenants closed shop than was initially expected. Apart from Ster-Kinekor, which was placed in business rescue in January, Beattie says she is not aware of looming closures or tenant failures. The focus has nevertheless shifted to keeping tenants in malls.

"We want to avoid papered-up shop fronts, which creates a depressing environment for shoppers. We will rather find a way to help struggling tenants than lose them — provided they have a viable business," she says.

To this end, L2D has already slashed rentals by an average 32% for retail leases that came up for renewal last year, though that affected only 3.6% of the total portfolio.

Beattie didn't provide an earnings outlook for 2021. However, it appears that investors are relatively upbeat about L2D's recovery prospects. The share price, which touched a record low of 355c on February 3, has since rebounded by 35%. Admittedly, there's still a long way to go to get back to the R10 level at which the company listed in December 2016.

But analysts say L2D is probably through the worst in terms of the severity of income and valuation losses. Imdaad Nana, analyst at Catalyst Fund Managers, says: "Should the economy start to recover, the vaccine rollout accelerate and we have a less severe, or no, third wave, we expect the portfolio to make a gradual recovery. This should be reflected in improving vacancies and lower tenant failures."

Kelly Ward, analyst at Metope Investment Managers, says the recent rerating of the L2D share price has been supported by better than expected results. Management's decision to retain a 100% dividend payout ratio has also helped to restore confidence. "It makes it easier for investors to forecast returns and price the share correctly," she says. L2D's low loan-to-value ratio of 20.5%, reflecting a strong balance sheet, is another plus, given that investors are looking to avoid default risk at almost any cost.

Ward notes that while L2D shareholders are ultimately bearing the brunt of the rental relief provided to tenants (through dividend cuts), credit has to be given to all listed landlords for supporting their tenants through this difficult period. She adds: "L2D has a fine balance to strike between retaining tenants at all costs and preserving income."