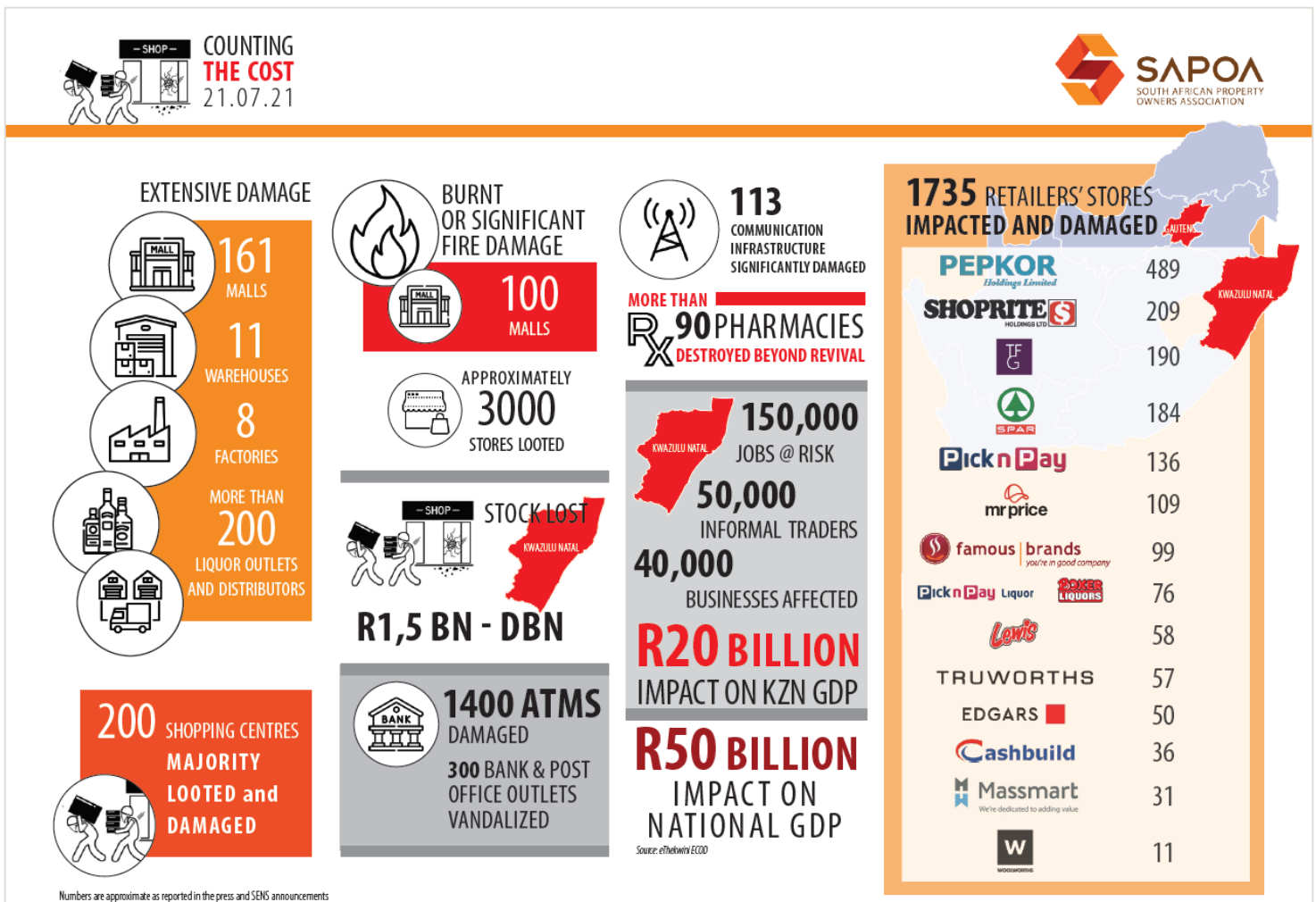


**Update on the situation at Futuregrowth Community Property Fund shopping centres**  
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The dust has settled in most parts of Gauteng and Kwa-Zulu Natal, with a strong military presence over the past two weeks. Landlords and tenants have been working around the clock to assess the damage and start the rebuilding process. The extent of the damage in these provinces varies. The graphic below, supplied by the South African Property Owners Association (SAPOA), sums up the cost to the retail industry and the country as a whole.



## The impact of the riots on the Futuregrowth Community Property Fund

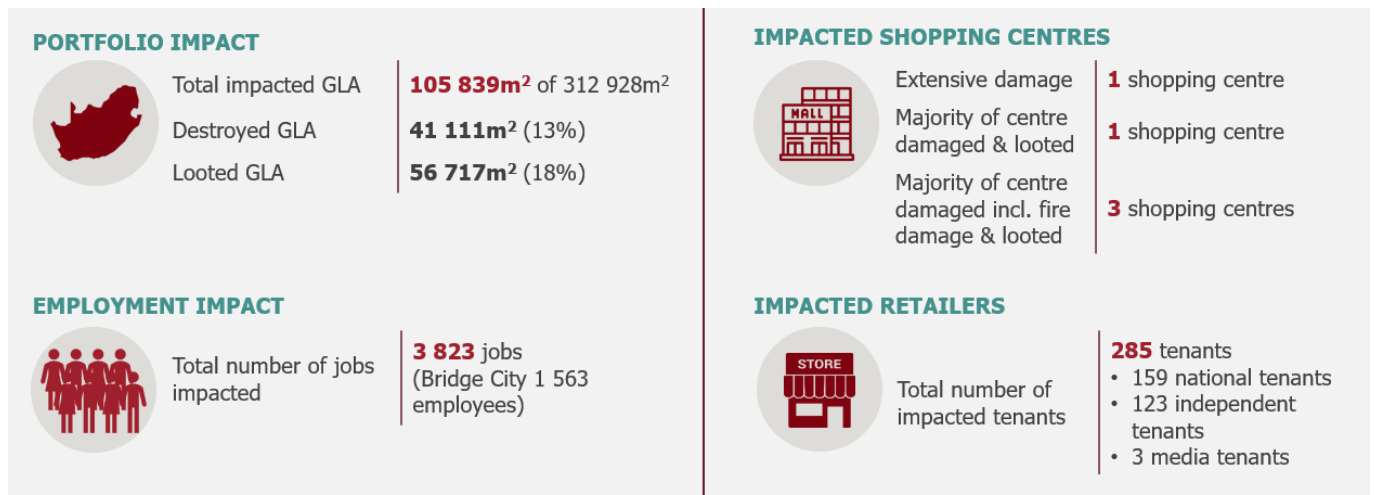
The impact was limited to five of our 20 shopping centres: two in KZN and three in Gauteng.

1. Bridge City Shopping Centre (KwaMashu, KZN)
2. Maxwell Shopping Centre (Empangeni, KZN)
3. Sontonga Mall (Katlehong, Gauteng)
4. Alexandra Plaza (Alexandra, Gauteng)
5. Eyethu Orange Farm Mall (Orange Farm, Gauteng)

## How extensive is the damage and when can the centres resume operations?

There is no major structural damage at any of the centres, and minor structural damage at two of them. Four of the five centres are expected to be fully operational within the next two months. Bridge City suffered more damage than most and is only expected to be fully operational after 12 months. The structural integrity of the building is sound, but the extent of the internal damage to the centre is significant.

Some key impact statistics for the Fund are as follows:



## How much insurance does the Fund have and will all losses and damage be covered?

Over the past seven years, riots and social unrest were flagged as key concerns in the Fund's audit and risk committee meetings. In April 2020, the management team was concerned that COVID-19 hard lockdown restrictions would cause riots and looting to escalate, and therefore, as a risk management strategy, decided to increase the SASRIA cover and to take on additional cover via Emerald Africa. The SASRIA insurance will cover loss of income and structural damage up to R1.5 billion. Emerald Africa will cover any claims in excess of the R1.5 billion SASRIA limit up to R3 billion.

*Our priority is to get the affected shopping centres up and running and the tenants trading as soon as possible* - to keep our centres relevant, minimise loss of rental, and maximise tenant turnover over this period. Being able to react and turn the impacted centres around quickly is also important for tenant relations, tenant retention and the letting of vacant premises. A proposal was sent to the insurers on 20 July 2021, aimed at limiting delays in addressing the damage while ensuring that all requirements are met for payout by the insurers.

## What have we learnt from this experience?

*The timely deployment of additional security* at all our centres before the rioting started helped to avert major structural damage overall. However, it has become clear to everyone that the extraordinary circumstances required an extraordinary response. In the past week, the SAPS and SANDF have been very active in most of the affected areas and at certain Fund centres. As a result, the additional security deployed at most of the centres was removed on or before 22 July and the centres reverted to their normal security complements.

*The importance of our relationships* with the local police, army and taxi operators cannot be underestimated, and these played a key role in minimising the damage at the Fund's centres.

## The overall impact on capital investment, forward-looking returns and the liquidity position of the affected assets

The view of the independent valuer (Mills Fitchet) is that there will be short-term volatility to income, as was the case when COVID-19 hard lockdowns occurred in 2020. Even during these hard lockdowns there was no material impact on the valuations of the properties, and the properties rebounded back to their normal trading patterns within a few months. The current situation is similar, if not better, for the following reasons:

1. ***The Fund has adequate cover*** for loss of rental and physical damage to property. There will be a timing difference in terms of receipting cash from the insurers versus receipting it from tenants. The Fund will also utilise its own cash flows to get the centres up and running as quickly as possible, with the claims for repairs being paid by the insurers at a later stage. This will have no impact on the long-term valuations, which are based on a discounted cash flow model over a 10-year period.
2. ***The demand factors will not change***, as access to essential goods and services such as affordable food and social grant payouts is critical for these communities.
3. ***There may be an increase in demand for space*** at the properties owned by the Fund, with many other (non-Fund) shopping centres completely destroyed (where a complete rebuild can take two to three years).
4. ***Trading densities are likely to be restored*** once the affected centres open up again, particularly as the cost of transport to other areas is a significant consideration for these consumers.
5. ***The riots and looting will not affect the cap and discount rates*** applied in the valuations. (REITs that overvalued their assets prior to the riots could potentially use the current turmoil as an excuse to write down their property values.)
6. ***The Fund can make unfettered decisions*** over this period as it currently has no gearing.

We are continuing to assess how we can best assist the impacted small retailers where this makes sense. Amongst other possibilities, we are in discussion with the IDC, which, as part of the government's response team via the DTIC, is looking at funding solutions for companies affected – with a key focus on infrastructure, supply chain and property.

### In conclusion

Our centres make a meaningful impact on the surrounding communities in the form of food security and access to medical facilities, employment, banking facilities and social grant payout points. There is a strong demand from consumers to resume access to these essential goods and services. We therefore see the current setback as a short-term challenge.

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