

Latest situation at Futuregrowth's Community Property Fund shopping centres

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Published: September 2021

Over the past month, life has been difficult for the citizens affected by the riots and looting, but the rebuilding of affected businesses has continued, with no obstacles to date. There has been tremendous support from the communities we serve, to assist in the cleanup and repair of the affected shopping centres owned by the Futuregrowth Community Property Fund. These communities have cited that they need employment to be restored and affordable goods and services to be brought back as soon as possible. Transport costs for many have increased, with consumers having to travel further away to purchase essential goods and services while the impacted centres are under repair. In some cases, consumers have had to pay double the normal price at the local shop for necessities such as bread, if they had no means to take public transport.

Rumours of further unrest on 23 August 2021 saw taxi associations and community members standing alongside the security companies at all our shopping centres, to defend them and stamp out the threat of any riots and looting occurring. We are happy to report that no further incidents took place.

The impact of the riots on the Fund

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

The exposure of the affected shopping centres (by market value and gross lettable area) as a percentage of the total properties under management is as follows:

Shopping centres	Exposure by market value	Exposure by GLA
Alexandra Plaza (Alexandra, Gauteng)	5%	7%
Maxwell Shopping Centre (Empangeni, KZN)	1%	2%
Sontonga Mall (Katlehong, Gauteng)	4%	4%
Bridge City Shopping Centre (KwaMashu, KZN)	16%	12%
Eyethu Orange Farm Mall (Orange Farm, Gauteng)	10%	8%
Total	36%	33%

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

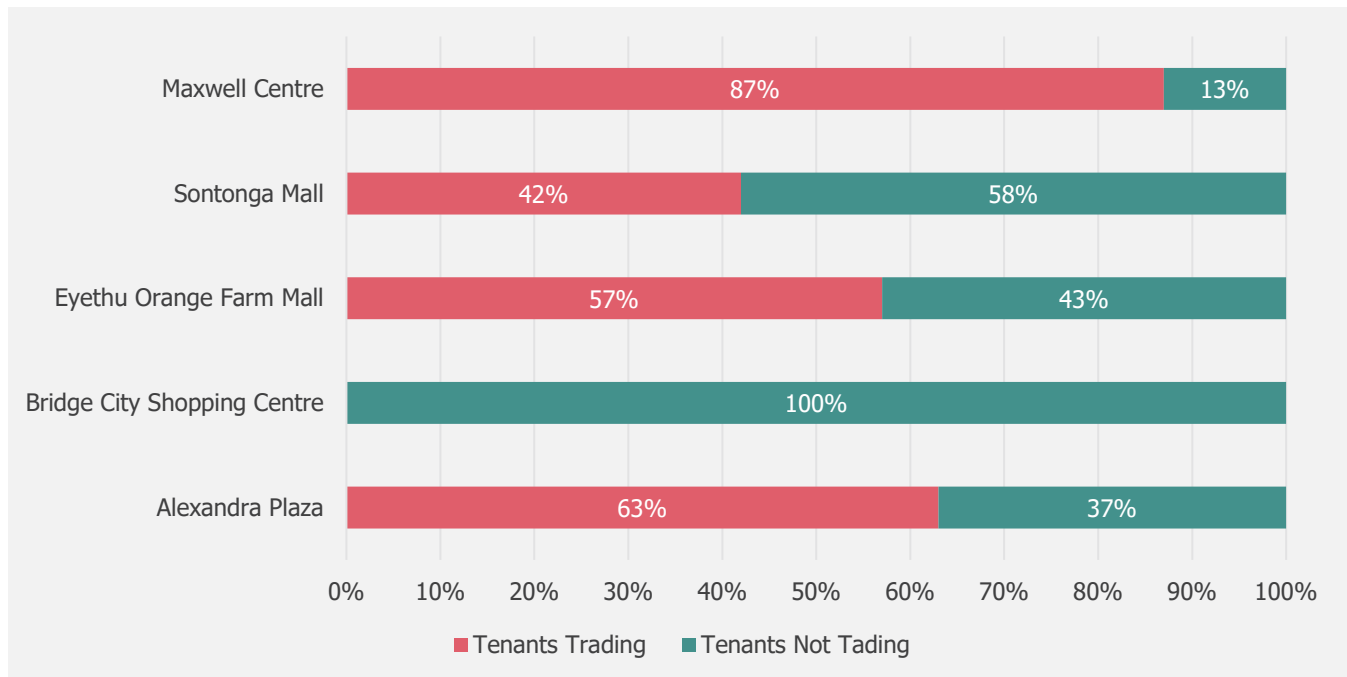
There is no major structural damage at any of the centres and minor structural damage at two of them. Four of the five centres are expected to be largely operational by the end of September 2021.

Bridge City, classified red in the table below, suffered more damage than the other centres 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.

Centre	Brief description of damage	Classification
Alexandra Plaza	Looted and minor damage (not structural).	Green
Bridge City	Fully looted and burnt. Significant damage (not structural).	Red
Eyethu Orange Farm Mall	Looted and minor damage (not structural).	Green
Sontonga Mall	Looted, fire damage and limited structural damage.	Green
Maxwell Centre	Looted, fire damage and limited structural damage.	Green

Our property managers, Capital Land, have been working around the clock to get the centres operating at maximum capacity and have been working hard to restore much-needed essential goods and services to the communities impacted.

Progress report as at 31 August 2021



Bridge City Shopping Centre has no tenants trading at present due to three key factors:

1. It was the most severely damaged centre of the five centres that were impacted.
2. The centre is located in KwaMashu, which was the epicentre of the riots.
3. Due to the size of the centre, it took a full professional team one month to assess the structural integrity of the building and the cost to repair the damage. The Centre has two levels with much more complexity than the other four shopping centres.

Sections of Bridge City Shopping Centre will open up in increments over the next 12 months to ensure that consumers can get access to some essential goods and services and do not have to wait a full 12 months for these.

The other four shopping centres have made good progress and are on track with their repairs.

What is the estimated loss of rental and cost to repair the damage?

The estimated rental loss is based on the following assumptions:

- The indicative tenant trading start dates, as estimated by the tenants;
- That the fire-damaged premises at Sontonga Mall and Maxwell Centre will be rebuilt within six months; and
- That Bridge City will be fully operational in 12 months from the date that the damage occurred.

The estimated cost to repair is based on feedback received from the quantity surveyors.

Centre	Period	Estimated rental loss (million)	Insurance for riots	Estimated cost to repair (million)	Insurance for riots
Alexandra Plaza	11/07/2021 to 30/09/2021	R2.4m	Yes	R3m	Yes
Bridge City*	11/07/2021 to 10/06/2022	R87.5m	Yes	R500m	Yes
Eyethu Orange Farm Mall	11/07/2021 to 30/09/2021	R8m	Yes	R10m	Yes
Sontonga Mall**	11/07/2021 to 30/09/2021	R3.1m	Yes	R12m	Yes
Maxwell Centre***	11/07/2021 to 30/09/2021	R0.8m	Yes	R5m	Yes
Estimated total		R101.8m		R530m	

***Bridge City:** We appointed a team of professionals ranging from quantity surveyors to engineers to assess the extent of the damage. The building has been declared structurally safe, but the internal damage is extensive. At face value, we assume that it will take 12 months to re-open the centre fully, as every one of the 110 stores was severely damaged and looted. However, the current situation presents an opportunity to reconfigure the tenant mix and layout more optimally.

****Sontonga Mall:** An assumption has been made that it will take six months to rebuild a portion of the shopping centre, where five shops (13% of GLA of the centre) were destroyed by fire, whilst the rest of the stores will open by 30 September 2021.

*****Maxwell Centre:** An assumption has been made that the Chicken Licken premises (2% of GLA of the centre), which were destroyed by fire, will take six months to redevelop, whilst the rest of the stores will open by 30 September 2021.

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

Insurance cover

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 the 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 Riot Wrap cover via Emerald Africa.

The Fund has SASRIA insurance in place for loss of income and structural damage up to R1.5 billion. The additional security costs during the riots and looting are also recoverable from SASRIA. In addition to this, Riot Wrap insurance cover from Emerald Africa up to R3 billion will cover any claims above the R1.5 billion SASRIA limit. An assessor from Associated Loss Adjusters has been appointed for the property portfolio.

Insurance claims process

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 were met for payout by the insurers.

We have agreed with the insurers that monthly interim claims will be submitted for loss of rental so that these can be paid out as soon as possible. Similarly, an interim claims process was discussed for other costs incurred, to get these reimbursed quickly, to manage cash flows for the Fund.

SASRIA are preparing a partial pay-out of R20 million this week, for claims that have been approved so far on their side, which relate to Alexandra Plaza, Eyethu Orange Farm Mall, Sontonga Mall and Maxwell Centre.

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

A meeting was held again with the independent valuer, Mike Gibbons at Mills Fitchet. His view remains unchanged 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. He still strongly believes that the current situation is similar, if not better, for the following reasons:

1. The Fund has adequate cover for rental loss 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 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 10 years.
2. The properties would only be revalued if the buildings were destroyed and had to be rebuilt from scratch.
3. The demand factors will not change, as access to essential goods and services such as affordable food and social grant pay-outs is critical for these communities.
4. With many other (non-Fund) shopping centres destroyed (where a complete rebuild can take two to three years), there may be an increase in demand for space at the properties owned by the Fund.
5. The cost of transport to other areas is a significant consideration for these consumers.
6. Trading densities are likely to be restored once the affected centres open up again.
7. The riots and looting will not affect the cap and discount rates applied in the valuations. (REITs that overvalued their assets before to the riots could potentially use the current turmoil as an excuse to write down their property values.)
8. The Fund currently has no gearing and can therefore make unfettered decisions.

The independent valuer has reiterated that his view has not changed from the prior month, in terms of capital values being impacted, for the reasons stated above. His view is shared by other independent valuers in the market.

In conclusion

It has been a challenging month, but also one that has tested the resilience of the portfolio and the management team.

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. The feedback from retailers has been positive and there is still 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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