

The impact of the riots on our malls and surrounding communities

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We are all shocked at the wanton lawlessness and destruction we've seen over the past few days. Of the 20 properties in the Futuregrowth Community Property Fund (Fund), only five properties were affected. We are thankful that the remaining properties in the Fund have been unharmed and able to operate throughout this period.

We are indebted to the team at [Capital Land \(the Property Asset Managers\)](#), who have worked tirelessly around the clock to keep abreast of developments on the ground. A special mention goes to Anne Dire, the Centre Manager at Sontonga Mall, who, while mourning the loss of loved ones to COVID-19, has been directing the clean-up of the mall with the help of volunteers from the local community. It is instances like these that give us hope that humanity and common decency will prevail.

Futuregrowth's view on the impact of the current riots on the economy

The destruction of property and disruption to transport/distribution routes in Gauteng and KZN will undoubtedly have a significant negative impact on general economic activity, especially given the importance of the affected areas to the South African economy. It is also important to consider the knock-on effects of localised food, fuel and other shortages, which may spill over into other provinces. Needless to say, the current unrest will also exacerbate the acute unemployment problem the country is already facing.

However, it is too early to quantify the exact impact of these events on our broader economic growth prospects, in light of significant uncertainty about the duration of the unrest and when law and order will be restored. Of course, related re-building activity in the medium term may offset some of the immediate negative impact, but the jury is out on whether the losses to economic activity will be recovered in full, with the possibility of a lasting negative impact a stark reality.

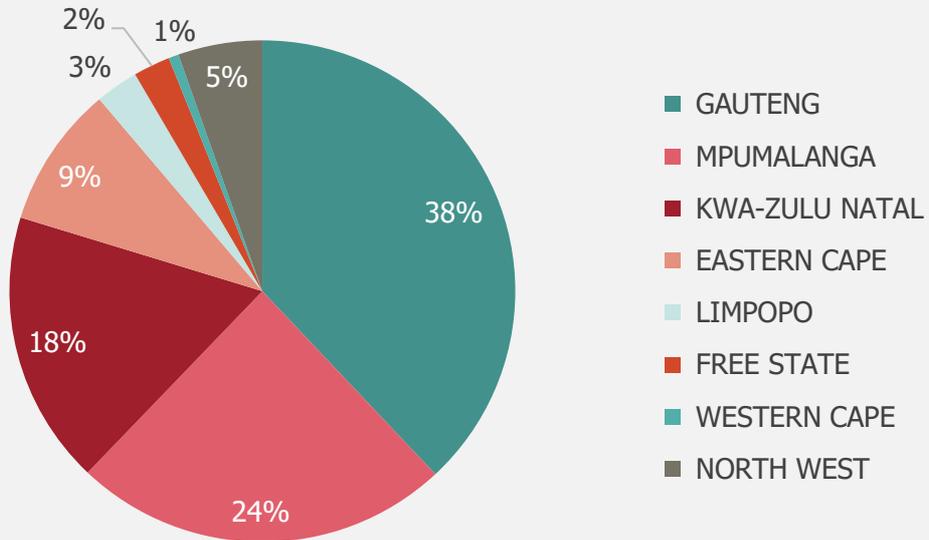
The Futuregrowth Community Property Fund

Fund composition

The Futuregrowth Community Property Fund is a flagship fund among Futuregrowth Asset Management's suite of developmental investments, with R4.7 billion of properties under management and a combined gross lettable area of 320 333m². The Fund currently owns 20 shopping centres located in prime locations in townships and rural areas in eight provinces.

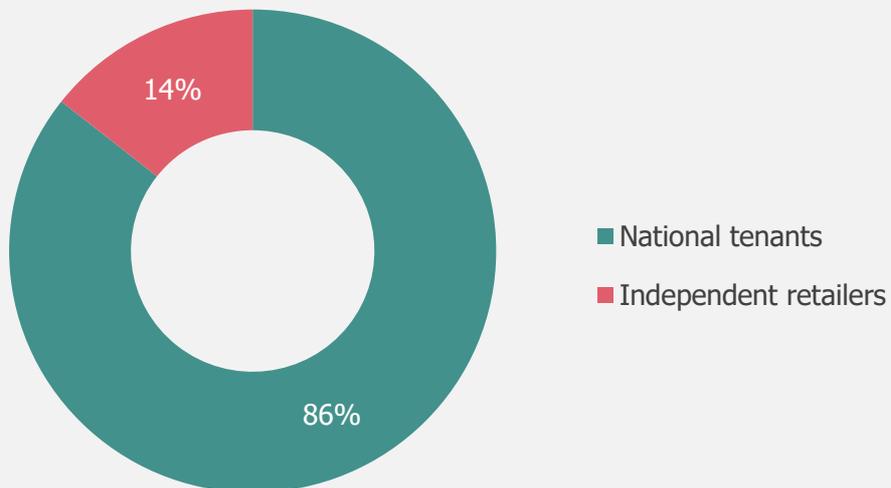
The Fund is well diversified across the country.

Geographic exposure



The Fund derives 86% of its rental income from large blue-chip national tenants that are focused on essential goods and services, have strong balance sheets, and can weather economic crises.

Tenant profile by GLA



The impact of the riots on the Fund

The impact thus far has been limited to five shopping centres: three in Gauteng and two in KZN.

All five of these shopping centres have experienced looting and physical property damage. The affected shopping centres are:

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)

The impact on the rest of the portfolio

- Our Eastern Cape, Free State, Mpumalanga, Limpopo, Western Cape and North West properties have not experienced any looting or damage.
- Some minor incidents at/around these centres were quickly diffused.
- All properties are currently protected by our security teams, and some also by the SANDF and SAPS.
- In some regions, taxi associations are assisting in guarding the centres.

Anticipation of these events and attempts to mitigate their impact

1. We anticipated that there would be protests in KZN and Gauteng from Thursday 8 July and prepared as best as we could.

Additional security was deployed at all our centres, along with riot squads. We also contacted police station commanders in advance, but were disappointed by their lack of support when the looting started. All centre gates and roller shutters were kept closed to limit damage, but the sheer volume of looters (both armed and unarmed) overpowered our security teams.

We feel that the military deployment should have occurred from 8 July. We are disappointed that the government did not act swiftly in calling in the SANDF, as it was clear that the police would be under-resourced. There were sufficient signs early enough for the government to have deployed the military timeously.

2. We have insurance on all our malls

We are insured via SASRIA for both loss of income and structural damage up to R1.5 billion. We have a further top-up to R4.5 billion via Emerald Africa, should the SASRIA cover not be sufficient. SASRIA and Emerald Africa both provide cover for damage related to riots.

We do not expect that the damage from the riots will exceed the cover provided by SASRIA and Emerald Africa and are comfortable at present that our claims will be covered.

SASRIA has stated that they have R10 billion available for any claims. They are expecting claims of R7 billion based on their client book, and they also have a reinsurance programme underwritten by

Swizz Reinsurance Company, Lloyd's Underwriters, Hannover Reinsurance, Munich Reinsurance and SCOR Africa, amongst others.

3. We have a huge community presence

Most of the staff (over 78%) employed by the centre management and retailers in the Fund's shopping centres are from the local community. We also have a community shareholding structure in one of our malls. Although this has not had the defensive impact we would have anticipated, we believe that the community presence will fuel eventual recovery at the affected centres.

It is important to note that the looters are not a true reflection of the communities surrounding our centres, and make up a small percentage of these densely populated areas. Community members have condemned the attacks, and are assisting SAPS in retrieving looted goods.

The short-term reality is that these communities will face food shortages as distribution chains have been broken and nobody will deliver to the affected areas. Job losses and other hardships are also expected.

The extent of the Fund's community involvement can be viewed on www.communitypropertyfund.co.za.

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

It is very difficult to assess the damage and the impact on returns whilst the situation is unfolding. We can only start doing that once the dust settles and we can safely access the properties to start quantifying the damage.

Our current view is that independent retailers will suffer the most, and vacancies may rise. Shopfronts have been destroyed and tenants have lost not only goods but also fittings and fixtures, as well as equipment, such as cash registers, that enabled them to conduct their business. We are currently considering ways to support the smaller retailers because they are unlikely to survive these brutal attacks on their own.

Independent retailers make up approximately 15% of our total portfolio. Taking into account only the impacted centres, this places approximately 5% of our lettable area at risk. The knock-on effect is that vacancies may rise, and cap rates may rise in line with the risk over the short to medium term, which may then have an impact on the valuations of the properties in due course.

Does the business case for investing in rural areas still hold?

The Fund is underpinned by the belief that consumers living in densely populated townships and rural areas require access to essential goods and services. As the spending power and population grows in these areas, this will result in increased turnover for retailers, which, in turn, will result in better rentals for landlords and, ultimately, better returns for investors.

The Fund also has a social objective through its community impact programmes. The communities surrounding the Fund's shopping centres benefit from our investment, through increased employment opportunities and access to a wide range of quality shopping facilities and commercial services not usually available in the target areas.

Residents of the affected areas are devastated, as their food security and access to medical facilities and social grant payout points has been destroyed. While the shopping centres remain closed, the local community may suffer job losses as an immediate consequence. However, the market we service will remain. Therefore, we believe that investment in this sector will continue to thrive, regardless of these actions by a small minority. To put this in perspective, KwaMashu, Inanda and Ntuzuma, where Bridge City is located, has over 1.5 million residents, whilst looters made up roughly 2 000 people.

We strongly believe that the situation will improve as time progresses - and the positive community response already witnessed gives us confidence that normality will be restored.

In conclusion

It is difficult to assess the impact of the unrest at present, due to the limited information available. However, our shopping malls make a meaningful contribution to the lives of many in the surrounding communities. We believe there will be a strong demand from consumers to resume access to the essential goods and services our malls provide. We see the current setback as a short-term challenge, which could have been avoided had the military been deployed and decisive action taken earlier.

Published on www.futuregrowth.co.za/newsroom.

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