COVID-19
RENTAL RELIEF REPORT

SA REIT RESEARCH COMITTEE

Executive Summary

The SA REIT Research Committee is a newly formed committee under the SAREIT Association and has been formed with the objective of providing research and insights into pertinent features of the listed property sector in South Africa.

Our first research report delves into the extent of COVID-19 rental relief that has been provided by REITs to their tenants; with a particular focus on supporting and sustaining SMMEs in the midst of the pandemic. This report is the first of two reports which we plan to publish; each covering the latest periods of available disclosures on this topic.

From this report, we recognise the significant quantum of c. R3bn of rental relief already provided by the sector, of which, 80% relates to discounts; where there is no intention of recovery and which is provided as an immediate reprieve to tenant cashflows. This comes at a time when property companies' earnings are already under severe pressure; which is unlikely to let up in the short term.

Furthermore, c. 69% of the R3bn was provided up until August 2020 - indicating that a significant amount of rental relief is yet to be quantified over the post September period, notwithstanding the unquantified relief provided by those property funds that are not SA REIT members. Given ongoing pressures on the sector and the further rental relief measures that these conditions may necessitate, our second report will assess the quantum of relief provided in the latter part of 2020 and the beginning of 2021.
Our report explores two key aspects, that of the rental relief provided by SA REITs as well as the relief schemes and initiatives introduced by government at large.

In response to the pandemic, government introduced a number of relief schemes and initiatives; amongst which include:

- Tax relief measures;
- A R500 billion fiscal stimulus package;
- An over R400bn commitment through several programmes and initiatives aimed at helping individuals and companies directly affected by COVID-19 and lockdown measures; and
- A COVID-19 Block Exemption for Retail Property Sector regulation [introduced by the Department of Trade and Industry] to exempt agreements or practices between retail tenants and retail property landlords from scrutiny under sections 4 (agreements between competitors) and 5 (agreements between suppliers, firms and customers) of the Competition Act.

We elaborate on these measures further in the contents of our report.

Within the listed property sector, The Property Industry Group (the "PI Group") was established as a response to COVID-19 and consisted collectively of the major representative bodies of the property industry in South Africa; namely, the SAREIT Association, the South African Property Owners Association and the SA Council of Shopping Centres. The proactive response from the PI Group has enabled the cohesive collaboration between tenants and property owners, in an effort to defend the sector as a whole from the negative impacts of the COVID-19 pandemic.

JOANNE SOLOMON
Chief Executive Officer
SA REIT Association

Covid-19 Rental Relief Report

The onset of the pandemic resulted in a number of tenants being impacted either through complete shut-down of operations (as for non-essential tenants during the hard-lockdown period) or as a result of a constrained consumer and economic environment. This impacted tenants across the sector base including retail, office and industrial tenants and in certain instances specialist sector tenants within the residential and storage subsectors.

In an effort to support their tenants and in so doing, prevent significant vacancies across their portfolios as a result of large-scale business failures, landlords provided a substantial quantum of rental relief to their various tenants (including SMME tenants). This rental relief came mainly in the form of discounts or deferrals granted to tenants and has lent a hand to the sustainability of many SMME as well as larger businesses across the country.

> *We estimate that in total, to date, SA REITs have provided rental relief of close to R3bn*

Through engagement with the 28 SA REITs registered with the SA REIT Association, we obtained consensus definitions of the terms “discounts” vs “deferrals” (which we outline below), in an effort to ensure like-for-like analysis and conclusions.

Based on our consultation with the various management teams, we define the following industry terminology as follows:

- **Discounts** relate to outright rental credits provided to tenants, which are not refundable and therefore written-off in the accounts of landlords.
- **Deferrals** relate to rental payments due, for which landlords have provided an extension on the payment terms [durations vary amongst landlords and tenants] but are still repayable within this renegotiated timeframe.

With these definitions in mind, we collected the disclosed company data for discounts and deferrals provided, as at each company’s last reported results period. Furthermore, where possible, we have aggregated post-period rental relief provided to us by management, in an effort to present a realistic representation of the overall support provided by the REIT sector to tenants thus far.

Based on our research, 80% of the total rental relief provided, has been in the form of discounts, i.e., non-refundable dispensations made to tenants.

We estimate that in total, to date, SA REITs have provided rental relief of close to R3bn, a material number in any environment, but particularly in the face of already pressurised earnings (see Figure 8 below) and weak macroeconomic fundamentals, all of which are likely to persist over the medium term.

Figure 1: Summary of data collected for the 27 REITs in SA [the only exclusion being Oasis, for which the required data was neither disclosed nor obtainable]

Source: SA REIT Research

Disclosed discounts R'mn	Disclosed Deferrals R'mn	Total disclosed rental relief R'mn	Post period-end rental relief R'mn	Total Disclosed + post-period
2,067	507	2,575	450	3,025

Covid-19 Rental Relief Analysis

Summary of collated data

Figure 2: Rental relief granted by the 28 SA REITs as reported

Source: SA REIT Research, Company data

Ticker	Total rental relief R'mn	Discounts R'mn	Deferrals R'mn	Period
GRT	436	278	159	April-June
RDF	355	268	87	April-August
HYP	242	237	5	April-June
RES	168	166	1	April-June
VKE	159	146	13	April-Sept
FFA/FFB	142	82	60	April-June
EMI	136	88	49	April-Dec
ATT	114	103	11	April-June
L2D	112	112	-	April-Dec
OCT	104	104	-	April-Aug
APF	100	100	-	April-Sept
IPF	87	55	32	April-Sept
SAC	81	70	11	April-Sept
AHA/AHB	77	67	10	April-Sept
REA/REB	70	70	-	April-Aug
DIA/DIB	49	44	5	April-Aug
FVT	32	16	17	April-June
EQU	29	-	29	April-Aug
HPB	27	27	-	April-Sept
SEA	20	14	7	April-Aug
HET	13	12	1	April-June
TWR	11	6	5	April-July
ILU	4	-	4	April-Sept
TEX	3	1	2	April-June
SSS	2	2	0	April-Sept
TPF	1	1	-	April-Dec
Total	**2,575**	**2,067**	**507**	

**Oasis and Delta have not disclosed this information as yet and have therefore been omitted from the above*

Split of rental discounts vs deferrals

Figure 3: Total rental relief as disclosed amounted to c. R2.5bn with the split of discounts vs deferrals as below

Source: SA REIT Research, Company data

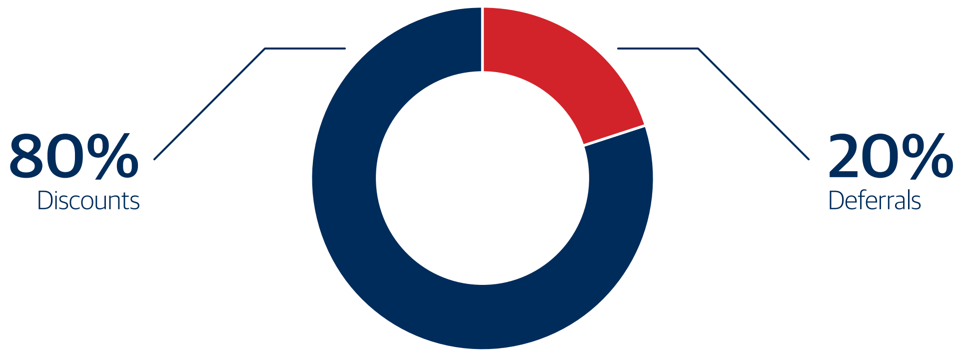


Figure 4: Split between discounts vs deferrals per counter in absolute terms

Source: SA REIT Research, Company data

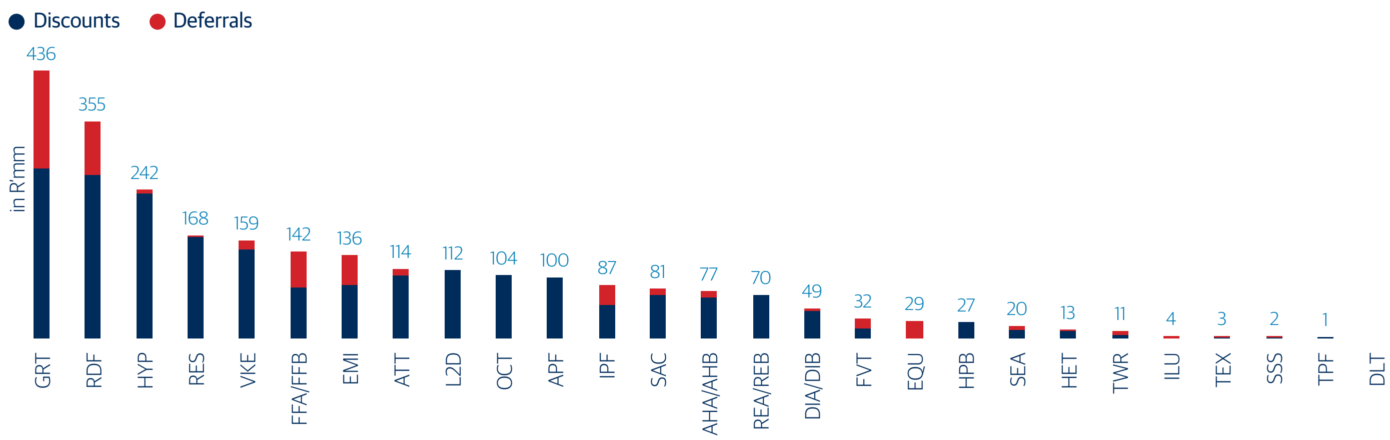
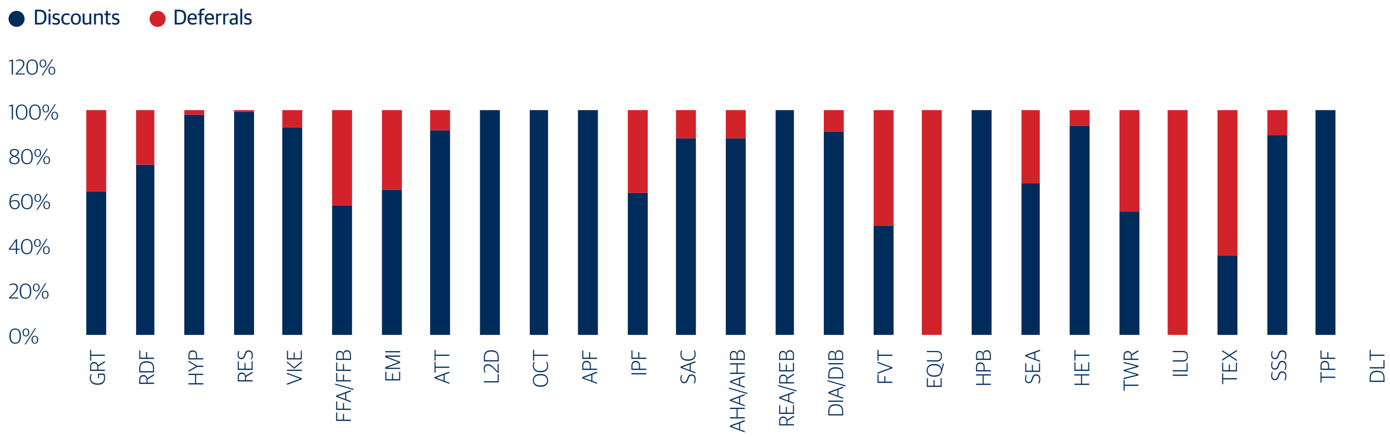


Figure 5: Split between discounts vs deferrals per counter in percentage terms

Source: SA REIT Research, Company data



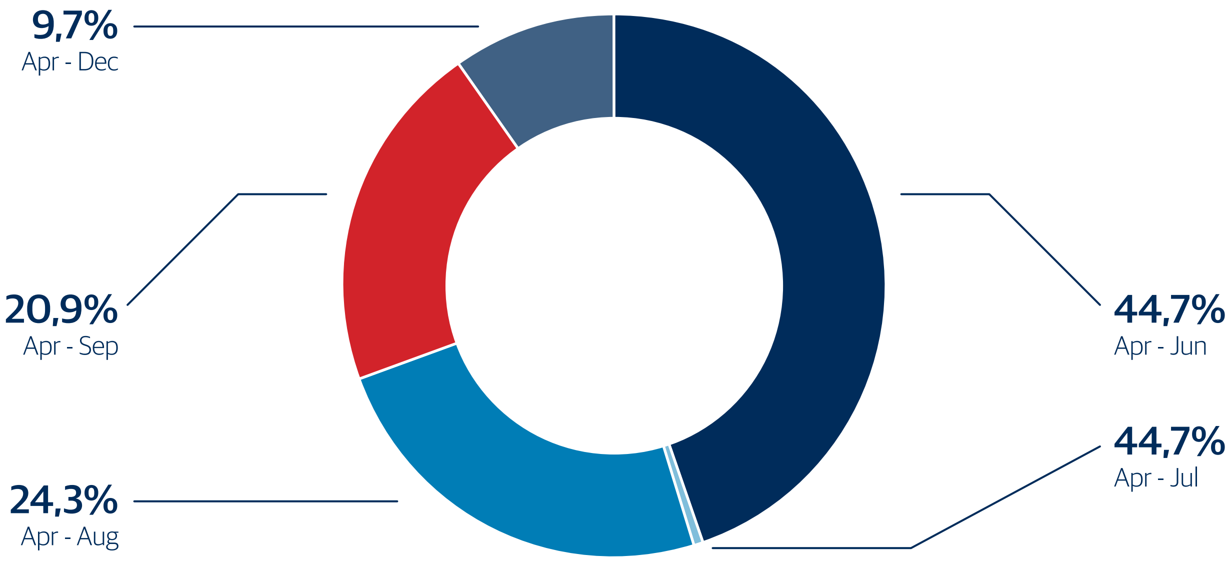
Time period split

The split below aims to illustrate the percentage of the whole, represented by each time period; i.e., the amount of the total rental relief which relates to April- June, July, August, September and December respectively, – based on differing company reporting periods.

Figure 6 highlights that an overwhelming c. 53% of the total rental relief number disclosed, relates to the time period from April-June; indicating that a significant amount of rental relief is yet to be disclosed by these various companies [from June 2020 to December 2021]. Thus, whilst the current total of c. R2.5bn is already substantial, it is likely only a fraction of the overall total including the quantum still to be disclosed.

Figure 6: Split between differing time periods of disclosure (as a percentage of the total rental relief of c. R2.5bn thus far)

Source: SA REIT Research, Company data



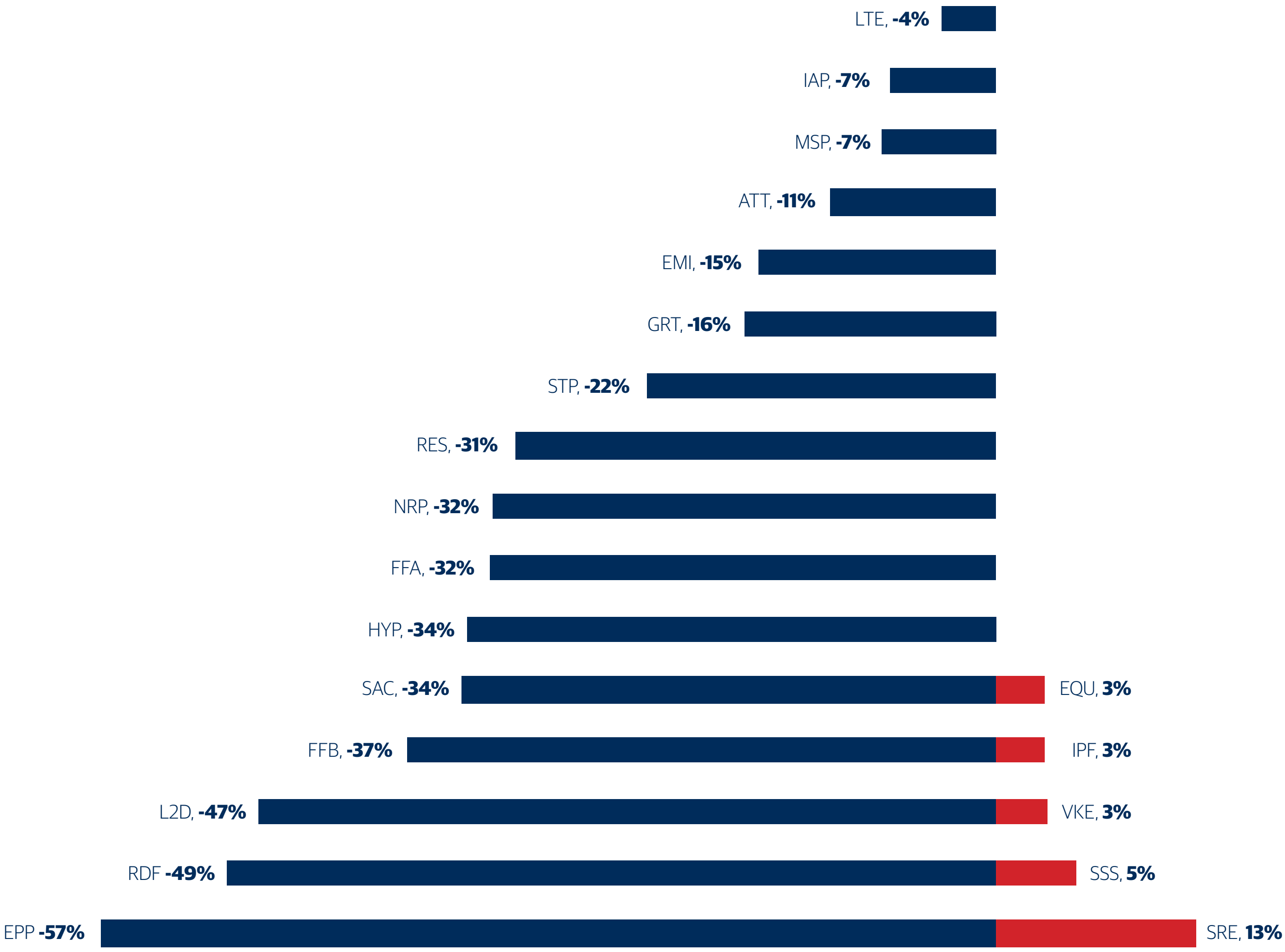
Time period	Value (R'mn)	Proportion of total rental relief (%)
April-June	1,150	44.7%
April-July	11	0.4%
April-August	627	24.3%
April-September	537	20.9%
April-December	250	9.7%
Total	**2,575**	**100%**

Distributable income growth over FY20

The below is demonstrative of the tremendous pressure faced by listed property companies overall over FY20. The only companies of the SAPY constituents that reported some form of growth in distributable earnings related to offshore counters (SRE), specialist counters (EQU and SSS) and counters who's FY20 financial period ended prior to the onset of the hard lockdown period (VKE and IPF both have March year-ends).

Figure 8: FY20 YoY distributable income growth for SAPY constituents

Source: SA REIT Research, Company data



We highlight that this analysis relates to distributable income per share (DIPS) and not distributions per share (DPS).
DIPS being the bottom line earnings available for distribution after taking into account all income less expenditure, whilst DPS relates to the actual distribution made to shareholders at a particular payout ratio.

Appendix:
COVID-19 relief provided by government

Background

In an effort to contain the spread of COVID-19, save jobs and limit the effects of COVID-19 lockdowns on economic activity, household income and corporate earnings; the government provided several social and economic relief measures in 2020. Specifically, the government introduced a number of relief schemes and initiatives; tax relief measures; and a R500 billion fiscal stimulus package to achieve four objectives.

First was increasing the health budget to ensure that the healthcare system can respond appropriately to contain and delay the spread of the virus. Secondly, the government aimed to provide relief of hunger and social distress by improving food parcel distribution efforts; increasing social grant amounts; and introducing a R500 COVID-19 social relief grant for those who are unemployed, not protected under the UIF, and do not receive any other grant. The third aim was to increase support of businesses, particularly SMMEs, and employees. Lastly, government planned a phased re-opening of the economy, balancing the continued need to limit the spread of the virus with the need to restart economic activity.

In terms of supporting business, particularly SMMEs, and employees, government has committed over R400 billion through several programmes and initiatives aimed at helping individuals and companies directly affected by COVID-19 and lockdown measures. This report will take a closer look at six schemes, programmes and initiatives offered by different areas of government.

COVID-19 Block Exemption for Retail Property Sector

The first and probably most important in the context of this report is this relief measure that targets companies in the property sector. In an effort to protect this portion of the economy, the Department of Trade and Industry introduced this COVID-19 Block Exemption for Retail Property Sector regulation to exempt agreements or practices between retail tenants and retail property landlords from scrutiny under sections 4 (agreements between competitors) and 5 (agreements between suppliers, firms and customers) of the Competition Act, in order to respond to the COVID-19 pandemic. This means that for as long as the COVID-19 pandemic is declared a national disaster, section 4 and 5 will not be enforceable against any "collusive schemes" designed to ease the burden that the lockdown will have on certain classes of tenants. This relief measure, therefore, allows landlords to implement payment holidays and rental discounts for tenants. It also protects tenants by putting limitations on the eviction of tenants and gives them the right to suspend or adjust lease agreement clauses that restrict the designated retail tenants from undertaking reasonable measures required to protect viability during the national disaster.

With these exemptions, the government is encouraging landlords to come together and reach some form of universal agreement to ease the burden on their tenants in the retail sector. The Block Exemption extends to all South African designated retail tenants, including small and independent retailers, who are involved in clothing, footwear, home textiles, personal care services and restaurants. Unfortunately, the regulation simply allows for the discussion to take place and does not impose any obligations on landlords. So, while it is good news for tenants, they will still have to wait to find out whether their landlords are willing to implement the process as described above.

Facilities and schemes to support SMMEs

There are three main facilities that have been introduced by a number of government departments to help support and get SMMEs through COVID-19 and the lockdowns. The first is the SMME Debt Relief Finance Scheme administered by the Department of Small Business Development. This scheme is a soft-loan facility aimed at assisting existing SMMEs in order to keep them afloat during the COVID-19 pandemic for a period of 6 months. It is aimed at providing relief on existing debts and payments, to assist businesses to acquire raw materials, pay employees and pay other operational costs.

A second way small businesses can apply for government assistance is through the Business growth/Resilience Facility which is also administered by the Department of Small Business Development. This facility was created to encourage participation of SMMEs in supply value-chains, particularly those who locally manufacture or supply hygiene, medical products, and food items needed to curb and manage the spread of COVID-19. It offers working capital, stock, bridging finance, order finance and equipment finance. The amount provided will be based on the funding needs of the actual business.

While both these funding schemes are extremely cheap, with loan funding at prime minus 5%, there is a long list of criteria that a company needs to meet in order to qualify for the loans. By January 2021, the department had received 14,451 fully completed applications for the SMME Debt Relief Scheme, with applicants requiring a combined estimated budget of almost R5 billion. Unfortunately, only 1,497 applications have been approved so far, to the value of R513 million. This means that the scheme has only allocated, for distribution, 10% of fully completed applications. Positively, however, R316 million has already been dispersed, representing 61.6% of the approved amount. In terms of the Business growth/Resilience Facility, disappointingly, the scheme was suspended in April 2020 due to an overwhelming number of applications received, with no update on the amount of money dispersed.

The final scheme is the Tourism Relief Fund offered by the Department of Tourism. The department has made R200 million available to assist SMMEs in the tourism and hospitality sector who are under stress as a result of COVID-19 and subsequent lockdown measures. This fund provides a once-off R50,000 per company grant assistance to tourism and hospitality SMMEs to mitigate the impact of COVID-19. The grant funding can be used to subsidise expenses towards fixed costs, operational costs, supplies and other cost items. While the department received 7,284 valid applications, it was only able to approve and pay 4,000 companies (each receiving the maximum R50,000) due to the limited R200 million budget. Therefore, even though the department has been able to distribute all the funds it had budgeted for, the fund itself is not enough to address the needs of the industry. Based on the applications received, the Tourism Relief Fund needs to provide an additional R164.2 million to adequately help those SMMEs in the tourism and hospitality industry to survive the impact of the extended COVID-19 lockdown measures.

UIF COVID-19 Temporary Employee/ Employer Relief Scheme

In another effort to help mitigate the impact of the lockdown measures on both employers and employees, the government introduced the UIF COVID-19 Temporary Employee/Employer Relief Scheme (COVID-19 TERS) in March 2020. This scheme was intended to provide emergency relief to enable employers to pay employees who are temporarily laid off or put on compulsory unpaid leave due to the COVID-19 lockdowns. While there was no specific provision amount specified by government for this scheme, the UIF had budgeted R40 billion for it. Positively, since March 2020, the scheme has paid out over R57 billion to more than a million employers.

Despite this great achievement, however; given the length of the extended lockdowns throughout the year and the broad impact they have had on the economy, the UIF has received a large number of applications which they have been slower than expected at processing. Even though the amount that has already been paid out has been impressive, there are billions of Rands that still need to be paid out to applicants. Furthermore, the scheme has been riddled with claims of corruption and fraud, with many complaints and allegations that some companies did not pay over the money to employees or that claims made were false.
Special programmes from the Industrial Development Corporation

In March 2020, the Industrial Development Corporation (IDC), a state-owned enterprise, established three interventions designed to address specific needs of businesses, including SMMEs. These initiatives would help mitigate the spread and impact of COVID-19 as well as help businesses with working capital amid increased cashflow challenges stemming from enforced lockdowns. The first fund is the COVID-19 Small Industrial Finance Distress Fund designed for small industrial companies, including metals and plastics manufacturers; food processing companies; clothing and textile makers; and small tourism operations, that have turnovers of less than R50 million. This fund has been specifically created to provide small industrial companies with funding through revolving credit facilities; working capital facilities; guarantees; and asset-based finance facilities to assist with eroded cashflows in the short term.

The second fund is the Distressed Fund that provides relief funding to companies that are reasonably unlikely to be able to pay all their debt as it becomes due and payable and cannot afford to fund their operating activities. As such, the fund will provide these companies with debt guarantees, scheme-related concessionary pricing and equity on a case-by-case basis. Lastly, the IDC created the COVID-19 Essential Supplies Intervention that is designed to provide funding to companies that have the ability and capacity to acquire and/or manufacture products needed to treat, curtail or limit the spread of COVID-19. For this initiative, businesses have access to short-term loans for once-off contracts or import funding; a revolving credit facility; guarantees to banks for banking facilities; and imports and ordering requirements.

Through these funds, companies have around R800 million of funding available to them; R300 million of which is allocated to the Small Industrial Finance Distressed Fund. Unfortunately, because of the lockdowns, the lack of appetite to further extend themselves financially, and the strict lending criteria from the IDC, the take up of the distress fund has been low. In an effort to change this, the IDC has expanded its qualifying criteria with regard to the distressed fund and committed to expediting disbursement of these funds to qualifying businesses. All in all, while the IDC has approved R746 million, it has only disbursed R440.8 million as part of its COVID-19 economic relief measures.

Tax relief measures to combat COVID-19

In March 2020, the government also announced tax relief measures to cushion the blow of the COVID-19 pandemic and subsequent lockdowns on companies and employees. Some of these measures were available only to SMMEs, with a revenue of not more than R50 million per year. These measures were not only intended to help prevent large scale job losses but also help companies that may be experiencing significant distress, access additional cashflow.

The initial tax measures involved three measures. Firstly, a tax subsidy to employers of up to R500 per month for four months for those private sector employees earning below R6,500 under the Employment Tax Incentive. This was expected to help over 4 million workers. Secondly, the South African Revenue Service (SARS) accelerated the payment of employment tax incentive reimbursements from twice a year to monthly. Thirdly, tax compliant businesses with a turnover of R50 million or less could delay 20% of their employees' tax liabilities over four months and a portion of their provisional corporate income tax payments without penalties or interest over six months. This intervention is expected to assist 75,000 SMMEs.

Subsequently, with worsened economic conditions and increased requests for assistance by bigger companies, the government announced additional tax relief measures in April 2020, to ease pressure on businesses and individuals. Firstly, government announced a number of tax payment deferrals, including a 90-day payment deferral for excise taxes on alcoholic beverages and tobacco products; and a three-month deferral for filing and first payment of carbon tax liabilities. In addition, there was a four-month holiday for companies' skills development levy contributions.

Secondly, the government committed to fast-tracking value-added tax (VAT) refunds. Thirdly, businesses with revenues of up R100 million have been allowed to defer 35% of their employees' tax liabilities for four months and a portion of their provisional corporate income tax payments over six months, without penalties or interest. Finally, on a case-by-case basis, larger companies can apply to SARS to defer tax payments without incurring penalties. There have also been a range of tax measures to assist individual taxpayers directly, including increasing the tax-deductible limit for donations to the Solidarity Fund to 20% of taxable income during the 2020/21 tax year; adjusting PAYE for donations made through the employer; and expanding access to living annuity funds.

These measures were expected to provide support of about R70 billion for businesses to continue operating, and to pay employees and suppliers. While it is difficult to ascertain how much support companies actually received, monthly tax revenue collection data from the National Treasury shows that there has been a significant slowdown in tax collection from a number of tax categories beyond the effects of slower economic activity. For instance, collection of the skills development levy has had the biggest drop in 2020 so far. For the period April 2020 to December 2020, the skills development levy has contracted by 44.5%. In fact, during the deferral period, skills development levy collection contracted by -99.4% year-on-year; 93.8% year-on-year; 95.0% year-on-year; and 88.7% year-on-year for June, July, August and September respectively. In addition, VAT refunds throughout the year have accelerated, growing from refunds of about R16 billion in February to over R20 billion in December.

COVID-19 Loan Guarantee Scheme

Similar to IDC initiatives, the government introduced a R200 billion Loan Guarantee Scheme that provides loans, substantially guaranteed by government, to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme, through the banking sector, can be used for operational expenses such as salaries, rent and lease agreements, contracts with suppliers, and utilities for a period of three months. While approval of applications for qualifying businesses are subject to a bank's risk-evaluation and credit-application processes, the loans are granted at a preferential rate. Furthermore, banks are not permitted to profit from these loans, with any surpluses generated accruing to the government. The loan repayment period is 66 months, with the first 6-months being a payment holiday. Government and commercial banks are sharing the risk of non-repayment of these loans, with the National Treasury providing up to R200 billion to the banking industry through the South African Reserve Bank. The government is engaging with non-bank lenders in order to possibly extend the scheme.

Unfortunately, despite being amended to make it easier for companies to qualify and get approved for the Loan Guarantee Scheme, the performance of the initiative continues to be dismal. By January 2021, only around R17.84 billion in loans had been approved, making up only about 8.9% of the available R200 billion. Furthermore, of the 48,366 applications received by participating banks, only 27% have been approved by banks and taken-up by businesses. Conversely, 46% of applications were rejected because they did not meet the eligibility criteria for the scheme (as set out by the Treasury and the Reserve Bank) or because they did not meet banks' risk criteria. Positively, however, this scheme seems to be benefiting SMMEs, with 72% of the total approved loans going to companies with a turnover of less than R20 million.

Apart from the relatively high rejection rate, demand for the scheme by companies remains below original expectations amid a reluctance by companies to acquire more debt given the uncertain business conditions and a weak economic outlook. As such, banks only expect to extend R18.9 billion in COVID-19 loans to companies under this scheme; 9.5% of the funds available. Outside of the loan guarantee scheme, banks have offered financial relief of more than R19.48 billion to individuals and R14.01 billion to commercial and small and medium enterprises. It can be argued that this support from banks has also contributed to the significantly low demand for assistance from the COVID-19 Loan Guarantee Scheme.

The SA REIT Association (SAREIT) is a representative umbrella body for South African REITs focused on promoting the sector as an attractive asset class locally and internationally.

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