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Initial assessment of impact of SA Civil Arrest on the SA Listed Property Sector

South Africa has experienced some of the worst riots in its recent history. Thus far we have seen business closures across retail, manufacturing, business services, logistics, resources and mining. Staff shortages hamper activity, supply chains have either been disrupted or destroyed, some transportation routes in and out of KwaZulu-Natal (KZN) are closed and some businesses simply remain closed for precautionary reasons. While the geographical location of disruptions may be concentrated, we believe that the spillovers into other regions could be material.

A great number of the landlords and retailers have business insurance and will be covered by the SA Special Risks Insurance Association (SASRIA) for both direct damage and business interruptions (i.e. rental). The state-owned entity provides cover for loss or damage to insured property as a direct result of civil unrest. When combined with the depth of the insurance market in the private sector, claims should be paid. However, this is not universally the case, particularly in the informal or SMME sector, or where businesses have taken the decision to close for precautionary reasons.

The situation is still highly unpredictable and there is uncertainty around the costs of damage. Some economists believe the cost of the riots could be in the region of R41bn. KZN (15.9%) and Gauteng (34.5%) account for ~50% of SA GDP. A big chunk of the R41bn will be covered by insurance and therefore replaced. Estimates are that GDP growth will be lower by about 5bps for every R10bn in costs incurred because of the riots. Therefore if the costs are c.R40bn, then GDP could be 20bps lower.

We summarise some of the updates from REITs below:

- Vukile has six shopping centres that have been impacted, which is estimated at about 8% of book value. Four in KZN (Durban Workshop, Pinetown Pine Crest, Hammarsdale Junction, KwaMashu Shopping Centre) and two in Gauteng (Daveyton and Dobsonville). Most of the damage appears to have been to shopfronts and equipment (relatively small). Vukile has the maximum amount of SASRIA cover.
- Dipula has 12 properties (6% of lettable area) that have been affected. 10 of these in Gauteng and 2 in KZN. Half of these suffered extensive, but not structural damage. The company is sufficiently insured.
- Arrowhead said it has five properties impacted (out of 115 assets). Three in KZN, one in Mpumalanga and one in Gauteng. Mostly minor damage with Montclair Mall in KZN the only one that saw substantial structural damage. Satisfied that they are adequately insured.
- Resilient said two retail centres sustained damage, which is about 4% of its portfolio value. Six centres remain closed while the four undamaged centres will be opened as soon as practically possible.

- Tower Property's Evagold Shopping Centre has suffered extensive damaged due to looting and being set on fire. The property is fully insured.
- SA Corporate has 11 properties are affected (188 properties in total) with four in KZN and seven in Gauteng. Damage is minor in Gauteng compared to KZN. The company has SASRIA riot insurance in place to cover asset and loss of income.
- Redefine has five properties in KZN, namely Ushekela Industrial Park, Cato Ridge Distribution Centre, the Scottsville Mall, Isipingo Junction and 320 West Street, and one property in Gauteng Chris Hani Crossing in Vosloorus, looted and damaged (total 2% of value). The affected properties are comprehensively insured, and any loss of income is similarly covered by business interruption insurance cover.
- Fairvest announced that 12 properties (44 properties in total) have been affected but the damage is still being assessed. Fairvest has insurance in place for losses and damage, including through SASRIA.
- Safari Investments said that three of its centres have been impacted, namely Thabong Shopping Centre in Sebokeng, Denlyn Shopping Centre in Mamelodi and Nkomo Villae in Atteridgeville. The latter two centres have seen minimal damage. The company has SASRIA insurance in place.
- Fortress had seven of its 264 buildings damaged. This included a warehouse in Cornubia, Biyela Shopping Centre, Evaton Mall, Palm Springs Shopping Centre, 336 West Street, Tembi Mall and Yarona Shopping Centre. Damage and loss of income is covered by insurance.
- Investec Property Fund had two properties damaged, a warehouse in Riverhorse Valley and at Kriel Mall. The properties are insured to cover the losses incurred, both in terms of capital damage and income loss.

What has become clear is that the degree of damage differs significantly by property. While some properties have experienced relatively minor damage to shop fronts and façades, others have seen extensive fire damage and structural damage.

As of Sunday 18 July 2021, it is estimated that approximately 2.5% of listed property's portfolio value has suffered some damage. This number is relatively low due to the level diversification in the sector geographically and by sector. While the direct impact on earnings will be minimal given insurance cover, there will however be higher medium-term vacancies from the loss of smaller businesses that do not have cover and lengthy re-stocking periods. Furthermore, it is also uncertain that rentals from unaffected retailers that closed as a precautionary measure can be collected. It is likely that some discounts or rent relief measures as seen at the height of Covid-19 lockdowns may be provided again while affected retailers rebuild or restock their stores. We will continue to monitor the situation and provide updates accordingly.

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