

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH LIBERTY PROPERTY GROUP

DATE: 6 November 2017

VENUE: CSIR Pretoria

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

Ms S Grimbeek : Principal Economist
Mr T Khumalo : Senior Legal Counsel
Prof Halton Cheadle : Apology

ON BEHALF OF LIBERTY PROPERTY GROUP

Amelia Beattie : Chief Executive Officer
Melville Urdang : Retail Consultant
Desmond Rudman : Webber Wentzel Attorneys
Thokozane Mnikathi : Legal Advisor
Farhana Morar : Support Liberty Portfolio



LEPELLE SCRIBES

P O Box 73090 Lynwood Ridge 0040
Free State (051) 430 1052 431 8205
Limpopo (015) 291 5522 230 0030
Fax: (086) 512 9211
Cell: (082) 866 9707
Email: info@lepellescribes.co.za

TRANSCRIBER'S CERTIFICATE

I, the undersigned, hereby certify that insofar as it is audible, the foregoing is a true and correct verbatim transcription of the proceedings recorded by means of a digital recorder.

In the hearing of
COMPETITION COMMISSION AND LIBERTY PROPERTY
GROUP

| | |
|------------------------------|-----------------|
| Date of Hearing | 2017-11-06 |
| Stenographer | Lepelle Scribes |
| Account Ref | Not Provided |
| Sound System | MP3 Audio Files |
| Date of Completion | 2017-11-06 |
| Total Number of Pages | |

TRANSCRIBER'S NOTES

1. Transcript is typed verbatim.
2. Names not spelt out for the record are transcribed phonetically.
3. Indistinct words and or phrases are indicated with sound system timestamps

Transcribers: L de Villiers. C Coates. T Kapp. T Fouché.

LEPELLE SCRIBES

PO Box 73090 Lynwood Ridge 0040

FREE STATE: (051) 430 1052 431 8205 LIMPOPO: (015) 291 5522 230 0030

Cell: 082 866 9707 Fax: (086) 512 9211

Email: info@lepellescribes.co.za

PROCEEDINGS ON 6 NOVEMBER 2017

CHAIRPERSON: Good day everyone, my name is Luluma Mtanga I am chairing this public hearings in the absence of the chairperson of this inquiry, Professor Halton Cheadle who has not been able to join us due to circumstances beyond his control.

I am assisted by two colleagues from the commission of who I will ask to request, I mean, sorry, to introduce themselves, thereafter I would like the group, the team from Liberty Group to introduce themselves and place their names on the record especially those
10 people who will be participating in the discussion this afternoon, thank you.

MS GRIMBEEK: Good afternoon, my name is Sunel Grimbeek, I am a principal economist at the commission and I am leading the technical team that is working on the grocery retail inquiry.

MR KHUMALO: Good afternoon, my name is Thabo Khumalo; I am a senior legal counsel working at the market inquiry.

MS BEATTIE: Good afternoon, my name is Amelia Beattie. I am the chief executive officer of Stanlib Reed Fund Managers, which is the manager of the property portfolio of Liberty Two Degrees and
20 Liberty Group Limited. I will let my colleagues introduce themselves and then I will carry on.

MR URDANG: Hello. Good afternoon my name is Melville Urdang; I am a retail consultant to the Liberty Two Degrees team.

MR RUDMAN: My name is Desmond Rudman; I am with Webber Wentzel Attorneys, we are assisting Liberty, engaging with the inquiry.

MR MNIKATHI: My name is Thokozone Mnikathi; I am a legal advisor for Liberty Holdings Limited.

MS MORAR: My name is Farhana Morar and I support Stanlib
30 Reed fund Managers in the, in respect of the Liberty portfolio.

CHAIRPERSON: I am not sure if I am the only one who, who has

been battling to pick up your surnames, all of you. I think I have Amelia, Neville, Desmond I know, Thokozane and Rihana, even you guys I could not, I could not get your surnames.

MS BEATTIE: So I give them again, it is Amelia Beattie.

CHAIRPERSON: Beattie. How do you spell that?

MS BEATTIE: B-e-a double t, i-e.

CHAIRPERSON: B-e-a-t sorry, b-e-a?

MS BEATTIE: Double t, i-e.

CHAIRPERSON: I-E Okay.

10 MS BEATTIE: And it is Mel Urdang.

CHAIRPERSON: Mel?

MS BEATTIE: Mel *ja*.

MR URDANG: Short for the suburb Melville.

CHAIRPERSON: Melville, O okay I said, I actually said you are Melville. [Laughs]

MS BEATTIE: Urdang. U.r.d.a.n.g.

CHAIRPERSON: Okay.

MS BEATTIE: And then Thokozane.

MNIKATHI: M.n.i.k.a.t.h.i.

20 CHAIRPERSON: Mnikathi?

MNIKATHI: *Yebo ma*.

CHAIRPERSON: Mnikathi?

MNIKATHI: *Ja m-n-i-k-a-t-h-i*.

CHAIRPERSON: Okay Mnikathi. Okay.

MORAR: It is Farhana Morar so it is F.a.r.h.a.n.a.

30 CHAIRPERSON: Morar, okay. Farhana Morar. Hope I pronounce it correctly. Thank you very much. A different, our stake holders come, have appeared before us and had a different way in which they wanted to present or run the proceedings, we really in your hands, we do not want to be imposing any, if you want to, if you have introductory remarks that you want to make a presentation

that you want to make we are happy to do that. If you just want to go straight on to questions that we may have for you we are also happy to do that, so we are in your hands and guided by you.

MS BEATTIE: Chairperson, thank you very much if, I would like to make a few introductory remarks and then we can take questions after that. As I said, Stanlib Reed Fund Managers represent both Liberty Two Degrees and Liberty Group Limited. Limited Two Degrees is listed in the real estate investment trust sector on the main board of the JSE which makes is primarily an income generating vehicle together with Liberty Group Limited. Liberty
10 Two Degrees holds undivided shares in various properties together with the letting enterprises and business conducted thereon. I will refer to Liberty Group Limited and Liberty Two Degrees collectively as Liberty from here on.

I am joined by Mel who is a consultant, retail consultant on the property portfolio, he has been part of the Liberty Group for a number of years and has considerable knowledge of and experience of the groups real estate business and he is here to assist me in any of the other questions that you may have. Liberty
20 is a long term insurance, insurance provider in the financial services sector and the property portfolio of Liberty comprises various assets in the hospitality retail and office sectors. Liberty owns the following properties:

The Sandton City Complex which includes the Sandton City shopping centre and rentable office space in the form of Sandton office towers and the ATM on fifth, I am sure you all must know Sandton City. Eastgate complex which includes the Eastgate shopping centre and the rentable office space in the East of Gauteng, Nelson Mandela Square in Sandton which include
30 rentable retail and office space. The Liberty Centre offices in Umhlanga and Century City that is the head office in Cape Town

and Durban.

The Liberty Promenade Mall in Mitchells Plain in the Western Cape. The Liberty Midlands Mall in Pietermaritzburg in KZN. The Umhlanga Ridge office park. A mixed-use precinct of Melrose Arch which includes rentable office space, retail, residential, hotel space and a gym. We have a 25% interest in the investment company which holds this property. Commercial developments in the John Ross Eco-Junction in Richards Bay which includes a 200 bed hospital development and the Botshabelo Mall in the Free State, in
10 Botshabelo outside of Bloemfontein in the Free State.

In terms of malls or shopping centres in which a Supermarket or grocery retailer are present which of course of relevance to this panel, we own and have a controlling interest in the following, in only the following six centres.

So whilst we have a very big property business, it is only a small number of properties that we have. Those are the Sandton City shopping centre, the Eastgate Shopping centre both in Johannesburg, Liberty Promenade in Mitchells Plain, Liberty Midlands Mall in Pietermaritzburg, Botshabelo Mall outside of
20 Bloemfontein and Melrose Arch in which we only have the 25% share through Liberty Propco.

I will focus on these malls or shopping centres in this, in these remarks in the light of the objectives today. To give you a synopsis of our shopping centre operations, in terms of financing we do not typically secure any external financing for our shopping centre developments, we self fund all of these developments using our own equity and in this regard we do not rely upon external financiers to provide the initial investments necessary to establish a shopping centre nor are we, are our development teams
30 influenced by external financiers.

Furthermore Liberty does not finance any third party developer's

shopping centres or mall developments. We only manage and build or extend for ourselves. Liberty chooses the areas in which it wishes to hold and develop a centre or mall based on a number of factors.

These include the population density in the area, access to and zoning of the area, *alesaming* information, transportation roots as well as the presence or lack of existing and established malls. Liberty also appoints a professional time planner and project manager to assist in its developments and other commission, and
10 often commissions or almost always commissions demographic studies prior to deciding on setting up a new development.

Liberty executives and asset managers are often involved in lease negotiations with anchor tenants while leasing managers or leasing agents usually negotiate the lease terms with ancillary tenants. Liberty executives are also involved in providing final sign-off on the terms contained in all lease agreements to which Liberty is a party. In terms of rentals, Liberty's lease agreements generally contain two elements; the first is a base rental which is a fixed amount to be paid by the tenant per square meter leased, the
20 second is a turnover rental which will differ depending on the turnover generated by the particular tenant.

The turnover rental payable will usually be a set percentage after turnover earned by that particular tenant in a given month. Typically if the base rental exceeds the turnover rental payable during that period, then only the base rental are due and payable by the tenant.

However, if the turnover rental exceeds the base rental then such turnover rental will be payable over and above the base rental that we charge. Increases in rental amounts stipulated in the lease
30 agreement are calculated to ensure that adequate returns are made by Liberty on its property investments and these are usually

calculated with reference to the consumer price index and prevailing interest rates.

These terms apply to all our income producing properties which form the overwhelming majority of the properties that we manage. I will now turn to an overview of Liberty's thoughts on exclusivity provisions in these agreements.

10 As a property owner and landlord, Liberty's objectives in respect of all its shopping centres is, to achieve an optimal tenant mix to ensure sustainable rental income and provide what our customers want. We are not interested in exclusivity provisions in lease agreements, where such provisions do exist, these are purely for the benefit of the retailer or tenant. We understand that it is early supermarkets which request exclusivity clauses to be included in their lease agreements.

We also understand that such clauses are generally not present in lease agreements in respect of super regional malls as supermarkets accept that such malls can accommodate more than one supermarket tenant.

20 That would be typical for a Sandton City and Eastgate which are two of our six centres. Liberty is of a view that parties to such a lease agreement should generally not agree to any exclusivity provisions as such provisions are generally not justified, however there may be rare instances where the circumstances could reasonably justify the need to include an exclusivity provision although these circumstances are generally historic and are influenced by prevailing circumstances at the time. For example.

CHAIRPERSON: Sorry, on that point if we may just interrupt you, is that your view in general or specific to regional and super regional malls?

30 MS BEATTIE: That is our view in general. For example; exclusivity provisions in lease agreements may have been justified in

circumstances when anchor supermarket tenant require protection for its initial investment in a mall, in these circumstances the exclusivity would only be justified for the amount of time which it would take the supermarket to recoup its full commitment as an anchor to the mall.

Today however, the risk element is lower and with the proliferation of data and information there are newer risk mitigation elements which developers and retailers can apply that will negate the need to include these exclusivity provisions.

10 Large national retailers have significant bargaining power and often extract more favourable terms from landlords than other retailers are able to. Furthermore these national retailers do not incur unusually higher costs in establishing themselves in a shopping centre and there is accordingly less reason for exclusivity to be awarded to them in order to guarantee a return on their investment.

Accordingly is our opinion that exclusive lease agreements between landlords and supermarkets are not justified and should not exist. It is also our view that any exclusivity clauses which are
20 currently in leases should be removed. Liberty is currently party to only three lease agreements in respect of which the exclusivity clause is in favour of grocery retailers exist.

The first is in respect of the Sandton City shopping centre where the supermarket retailer secured, secured an exclusivity clause preventing any other premises from operating a butchery subject to certain exceptions. The nature of this provision is limited in scope and the lease agreement in which it is contained was concluded almost 40 years ago when the mall was one of the first large suburban malls in Johannesburg. On the basis Liberty found the
30 exclusivity clause to be justifiable at the time. Second and third lease agreements are in respect of the anchor tenants or

supermarkets at other developments.

Liberty inherited these lease agreements with the anchor tenants when it took over as the investor of these centres and the terms of the lease agreements, so we did not initially entered into them, they have already been negotiated prior to Liberty's involvement.

We have attempted to negotiate removal of the exclusivity provisions with the supermarket tenant, but the latter has been unwilling to do so except in the case where the supermarket agreed to a partial relaxation of the exclusivity provision.

10 Liberty does not request exclusivity clauses to be included in any of our lease agreements with supermarkets or grocery retailers as they do not serve the purpose or benefit for the developer and the landlord.

Furthermore in respect with any new developments, if a supermarket or a grocery retailer was to request an exclusivity we would generally refuse to accept such a request. We as the Liberty group try to best act as a market leader, we believe that our views on exclusive lease agreements are correct and ensure that we can provide a competitive offering to consumers. We are happy
20 to address any questions that the panel may have.

CHAIRPERSON: We have no questions. Thank you very much [Laughs]. You covered quite allot in your presentation and allot of the key points that we have been asking in these hearings, thank you very much, and just a comment that I have, you said I think Liberty Two Degrees and Liberty Group are of a... form part of an income generating vehicle, and then you said, listing your portfolio, I thought okay, I think I understand what you meant. Sandton City, Eastgate.

I was listening to the whole list, Nelson Mandela Square then I
30 thought *ja*, income, income, income. It all makes sense to me. You referred to yourself as a market leader, are you a market leader?

Towards the end of your presentation, that is what you said. Are you considered a market leader?

MS BEATTIE: We believe we are.

CHAIRPERSON: You believe you are.

MS BEATTIE: Yes.

CHAIRPERSON: Okay. And who would be number two to you and number three perhaps, if you can give us that sense. Even if you are not sure.

10 MS BEATTIE: I think we play in a, in a very unique space of retail only properties so any other property fund that, that would own retail specific properties we would consider our competition in this, in this space.

CHAIRPERSON: Okay, and then you also listed factors, a number of factors that would influence your decision in developing a, in taking, in starting, initiating a development and one of them was the, you mentioned an alyssum category, can you just take us through of the six properties, retail properties that you have just to give us what LSM categories are those...

MS BEATTIE: Serving.

20 CHAIRPERSON: Yes. Sandton City, what category will that be?

MS BEATTIE: All our shopping centres, the way we think about it is that we try to serve a very wide part of the market. So we will not only be targeting one alyssum category, we would try and offer something that would cover a wide range of alyssum categories. So in Sandton City for instance, you will find from Jet, Ackermans to Louis Vuitton.

CHAIRPERSON: Yes.

MS BEATTIE: So in Sandton City, for instance, you will find from Jet, Ackermans to Louis Vuitton.

30 CHAIRPERSON: Yes.

MS BEATTIE: And that can indicate to you the kind of wideness of

the categories that we serve. All our centres are in nodes where they can play that role in serving a wider customer base. The only one that is probably a slight exception is in Botshabelo Mall, which is a township development outside of Bloemfontein, it is a developing area and there you are probably serving a slightly lower LSM, but there are LSM 9 and 10 customers in that node as well, so we DO try to make sure that we can serve as wide a customer base as possible.

CHAIRPERSON: What about the promenade in Mitchells Plain?

10 What LSM?

MS BEATTIE: The promenade in Mitchells Plain are quite an incredible story, it our centre and publicly disclosed information with the highest growth in its trading base, and it also serve aspirant customers up to LSM 10 and serve the lower-end customers as well, so it achieves that same objective.

CHAIRPERSON: Okay. And then in terms of category, because these are fewer, I guess I can ask you to give us what type of malls these are, we are broadly using the term, "shopping centre" to cover everything. From a community centre, convenience centre,
20 value centre and you have already said Sandton City would be a regional mall ... [intervened]

MS BEATTIE: Super regional.

CHAIRPERSON: Super regional and Eastgate?

MS BEATTIE: Eastgate is also super regional.

CHAIRPERSON: Super regional, I will just... [Intervened]

MS BEATTIE: The Promenade Mall and the Liberty Midlands Mall are both regional shopping centres.

CHAIRPERSON: They are both regional?

MS BEATTIE: Yes.

30 CHAIRPERSON: Okay, that is ... and Botshabelo?

MS BEATTIE: Botshabelo is a community centre.

CHAIRPERSON: Okay.

MS BEATTIE: Melrose Arch is slightly different because it is part of a mixed-use precinct. The retail is only about 40 000 square meters, so it is not quite a regional in the retail sense of the word, but if you take it as part of bigger precinct, it serves the same purpose as a regional mall, but it is just slightly unique, because it sits within a mixed-use precinct.

CHAIRPERSON: Okay. You also took us, I am going to be jumping up and down on your presentation. You also mentioned that you
10 had three exclusivity clauses that are contained in three of your malls. One was Sandton City which was completed 40 years ago, I just want to get that right, so has that exclusivity been waived altogether?

MR URDANG: Madam Chair, the exclusivity there relates to a butchery and the size of a butchery. So, when Sandton City originally was developed 40 years ago there were in fact two supermarkets. There was the OK Bazaars as well as a Checkers. What occurred over the last number of ... a number of years ago as you may well be aware is that the OK Bazaars was purchased
20 over by the Shoprite Checkers Group and what they did do is, they consolidated everything into what is today, the Checkers Hyper.

CHAIRPERSON: And then you did not have Woolworths as well as the other... [Intervened]

MR URDANG: Correct, you will find as an industry there is very little reference in any clauses to Woolworths and whether Woolworths has an entitlement or not to trade in developments.

CHAIRPERSON: Okay, given your attitude and approach towards exclusivity and therefore that which is not being favourable, and generally not against them. What has made Liberty Group in this
30 instance to accept the exclusivity that has lasted for this long in relation to the butchery, or against the butchery in Sandton City

and do you find this to be justified it is a two-part question.

MS BEATTIE: Madam Chair, this lease a lease that has been in existence since then, so we have not had the opportunity to negotiate a new lease over that space. When we do so and when the options have run out we will engage with the tenant around that. But the lease has been in existence for that long.

CHAIRPERSON: Okay, how much longer do you think will this lease will be running for.

MR URDANG: Madam Chair, if I am not mistaken the lease has
10 less than three years to run.

CHAIRPERSON: Okay, it has less than three years.

MR URDANG: Less than three years to run.

CHAIRPERSON: That means by 2020 it ... you should be renewing.

MR URDANG: There will definitely be different lease with type of clauses that I think, that they are discussing here, or the lack thereof.

CHAIRPERSON: Okay. And then you mentioned the other two that you have inherited and then there was a partial relaxation of
20 one. Where you inherited, are you at liberty, liberty [laughing] to tell us where are these leases, or is, that confidential information?

MR URDANG: Sorry, Madam Chair, we are happy to tell you the content of that. If there is a section that you would like to do in camera, I will respect to those, we will certainly be more than obliging.

CHAIRPERSON: Alright. And then you have also indicated the rare instances where you think exclusivity could be justified. Have you come across those rare instances in your view, and from a property owner and property developer perspective what factors
30 would you take into account in those and what periods would you consider fair for exclusivity to be allowed for.

MS BEATTIE: I will answer the first part and then Mel can build on that. As I said as we started, we are mainly an income producing entity, so developments that we would start as greenfield developments are very rare in our space because of what we would prefer to have in terms of the properties that we have.

And in the last number of years we have only probably built two new centres that we started and would have been confronted with, with that overall, so it is not, it is not our focus to develop, our focus is to manage income producing properties.

10 CHAIRPERSON: Sure. And there is also, you have also made the statement that I did not catch completely, I just concluded it on my own, where you said you understand that where there IS exclusivity the one justification for it would have been protection for the retailer's initial investment in the development.

However, you also say that in today's world this risk is much lower because certain things can be done to mitigate.

Can you share with us what do you think can be done in mitigation of those risks that would then actually give rise to possibly no more exclusivity for us not seeing any more exclusivity going forward, for
20 lack of a better word?

MS BEATTIE: One of the philosophies that we subscribe to and spend a lot of time on before we do any changes to our tenant mix or when we are fitting out a centre, is to ensure that we do very deep demographic research into understanding what the customer want. We take it down to household surveys and get customers to tell us what they want us to create for them rather than us deciding what customers want and then try and work on that.

I think that is the best mitigating factor for this issue, where you make sure that you do not build too big, you build the right size
30 and then you can put the right tenants in there that will meet these customer demands.

That way there is no need for risk because you would not have put two tenants in just to fill the space. You will rather have constructed something that are well researched and have spoken to the needs of the customers at the time and therefore you do not need to limit what people can do and cannot do inside, inside this space.

CHAIRPERSON: Okay. Would you say that your demographic start is that you collected, I am trying to think from my perspective, will also be presented by demographic start is that have been
10 conducted by retailers themselves. You are calling yours deeper and they will say we have done deeper, they will maybe claim the same.

So, if a decision had to be made by this inquiry for example, I am not saying we are going to go that route, but if we are to look at whose view do you think should ... where should we put more weight?

On the view of the developer or more on the view of that one party that is claiming exclusivity on this kind of issue as to which start is really matter, which start is hold better, hold water. Which starters
20 must we take into account in terms of doing a market analysis and a market study and justifying or, not justifying the existence of exclusivity in these malls?

MR URDANG: Madam Chair, I do not think they are mutually exclusive, I think what we are highlighting is the fact that in today's day and age, as you correctly have said, there is so much information and study that go into making those decisions, regardless whether they are coming from the retailer perspective or from a landlord perspective.

That by the time you are making that informed decision you have
30 actually weighed up and analysed the risk fairly well and therefore an archaic mechanism does not necessarily hold the same view.

And I think that is what we are saying. Things were historical, or I think if we are talking about an exception, all we are saying is, because we have a certain concentration of investment that we make, we certainly do not sit here and purport to state that there could not be a circumstance out there where there is a weighing up of risk between all the parties and it is decided that something may eventuate. But, I think what we are saying in today's day and age really, we are all well versed enough to analyse that risk.

CHAIRPERSON: You also mentioned that large retailers have
10 large bargaining powers which have enabled them to extract more benefits. Can you speak more on that and also just to make us understand what do you mean by that? And would you say the totality of these benefits are obviate any need or justification for you, from the point of Liberty for exclusivity to exist in a number of malls in this day and age, would that be your view? And where the market is at the moment?

MR URDANG: Absolutely, Madam Chair, so I think, as you are probably well aware in terms of one of opening statements, anchor
20 tenants are vital to any development, but the structure of leases for all tenants has two components, it has a component of a base rental and it has component of a turnover rental and it is really the difference between those two, or the greater amount that gets payable.

CHAIRPERSON: Yes.

MR URDANG: The base rentals that an anchor pays are not really
30 what a landlord wishes to receive over the entire term of a lease. That is exactly what it says, a base rental. The only way that you benefit greater by that is two-fold, (1) if the trading of that anchor is favourable and beneficial so that at some stage there is the turnover rental which they pay over and above the base.

What it also does mean is that by THEM trading well, the whole

idea of an anchor is that they should make it possible for those that are near them, the ancillary tenants, to do likewise. So, therefore if they are trading exceptionally those other tenants should trade exceptionally, and that is exactly what we mean when we make that statement.

10 CHAIRPERSON: Okay. And you also mentioned properly, I am going back again to the number of factors that would influence your decision as to whether or not to initiate a development in an area, and you said, one of the things you would consider would be population density is there minimum to that, is there maximum? How does it work for Liberty?

MS BEATTIE: In terms of trading density?

CHAIRPERSON: Trading density, yes.

20 MS BEATTIE: So, trading density is something that we hold dear as a metric, because it tells us whether something is going to be successful or not. Trading densities also determine as to what rental we are going to charge initially, and if we believe that from the research that we do, that we will not be able to get tenants to deliver a certain trading density, which is the amount of sales per square meter that they can generate, their ability to pay the rentals will be compromised.

30 So, the right trading density will drive the right long-term sustainable rental income stream and that is what we are all looking for. So, it is difficult to say what trading density is required because it is influenced by so many things. By whether you have a super regional or a regional, what node are you are in, but there is such a multiplicity of information and benchmarks available in the industry today that, you know, we can, that inform us much better as to what that should be for those retailers to be successful. o, we would look at that, we would look at the amount of feet that we think people will come in there would look at the transport in the

node, will people come by car or by feet or by public transport and all those different, multiple inputs will inform what we do in that development.

CHAIRPERSON: Okay. I do imagine that for the kind of properties, property developments that you have embarked on like Sandton City, Eastgate, you must be faced with a lot of demand in terms having tenants wanting to locate their businesses where you are.

To what extent are you able to accommodate your smaller players and also players from the previous disadvantaged community against that demand, because with that I would imagine and that is what we would also want you to comment on as to whether or not there are any preferential treatment? Is there any preferential treatment that you would give to smaller players to enable them to come into Sandton City, for example, or Eastgate Mall? And businesses from, owned by previously disadvantaged persons?

MS BEATTIE: I think if you look at something like Sandton City, it is such a unique environment in that the relationship between national and big, large retailers and smaller retailers are quite ... there are quite a large percentage of the tenants in Sandton City who are independent retailers, smaller ones, people that are only wanting to have one shop in South Africa, they want to have it in Sandton City.

So, it gives us a unique opportunity to look for things that customers are asking us for. We want to back to the point that we try and answer to the needs or customers in all our businesses. So you know, if customers are asking us and good example would be where Stuttafords have now gone vacant in Sandton and in Eastgate. There are retailers that customers have been asking us for such a long time, that we have not been able to accommodate because we just did not have space.

Now it gives us a great opportunity to put those retailers in and

give customers what they wanted in terms of that. So, absolutely we are trying to make sure that we bring those smaller retailers in. That also provides the uniqueness to these environments, that is why people come there, because there is something different, you know, it is not just the same old, same old that they can find anywhere else.

So, as part of our tenant mix and management philosophy we always on the lookout for something small, something unique that can make a difference and that we can provide a platform to trade
10 and maybe grow their businesses into bigger businesses.

In terms of previously disadvantaged tenants, we do look for that as well. We have specific targets in our businesses of levels that we want to achieve in putting this into our environments. We create some form of incubation in some of our centres to see how we can actually provide an opportunity for tenants to start small. We give them assistance in terms of how they should do their marketing, how they should do merchandising and then using that to migrate them into taking full-blown retail space at some point in time.

So, we have got a number of those initiatives in place to (1) keep
20 our mix unique, and (2) grow the retailer base in South Africa so that there is something new always for everyone all the time.

CHAIRPERSON: Let us say, typically for a retailer that would, let us say from a previously disadvantaged background that would want to locate his business in Sandton, where would that incubation occur? Outside of Sandton City or ... and then you bring them when you feel that they are ready to be in that space? How would it happen?

CHAIRPERSON: Just as a matter of interest for me. Sandton is a neighbour, across the street from Sandton is Alexandra. Do you
30 ever find businesses coming from Alexandra or persons, not businesses necessarily but just concepts coming from that

community.

I am asking this question against the background that, there have been complaints and I see you do not have a lot of malls in the townships and rural areas so I can't really. \Except for Mitchells Plain, I can ask you that.

Where apart, where we have been asking other players and property developers the accent to which they bring in players from the communities in which they are located. So in your case do you have any, do you get approached, get approached by individuals from Alexandra for example wanting to locate their businesses in Sandton City and how do you deal with those?

MS BEATTIE: Melville maybe answer about Sandton specifically but I can tell you in a place like Botshabelo Mall we have huge community involvement there. Mitchells Plain. You know where we really encourage those people to want to be part of the advisory team when we build those environments, so that we take the community issues into account and also give something back to the community in terms of the things that we do but there are certainly retailers located there that are from those communities and we want to, we go to the towns and look for certain retailers that we believe will find, will be able to operate in that environment. Mel can tell you about Sandton.

MR URDANG: Madam Chair, Sandton is, I will not call it unique but it is a fairly specialised entity in the sense that it mean so much to so many people on such a broad level and our concentration with Sandton City is to make sure that it is a uplifting place for all, regardless.

CHAIRPERSON: Yes.

MR URDANG: And in that respect it is funny, on a personal level my family will say to me, dad why are you changing, Oh well but I am going shopping at Sandton.

You will actually change the way that you feel that you look in order sometimes to go into that environment and for us it is a privilege to be associated with that and to make sure that those from Alexandra and any other place that they arrive in some place that gives them an upliftment of being for the day.

Whether they buying something from a Mr Price or they are buying something or they just sitting down and getting an ice cream take-away from somebody. So we concentrate more on the environment as to what we can do to make it fully inclusive. From a retailer
10 perspective it is fairly difficult to do. Why, because the criteria of what a shop needs to look like, what the amount of stock. Et cetera. It would be insensitive for us to believe unless we are going to be able to assist from A to Z that we should expose somebody who is in their infancy.

Our view is that we would rather build them up from being good to great if you do not mind as oppose to taking somebody who is flourishing and promising and bringing them into an environment which is highly competitive, highly capital intensive et cetera and exposing them to that. We may do a lot more harm in some
20 instances than good.

CHAIRPERSON: Okay. On my previous question I also asked the second part which was whether or not you have preferential terms for your other than the incubation and the development and the assistance that you offer to this retailers.

Do you have, let say. I am making an example of you, those regional malls, Sandton City, Eastgate Mall. Looking at who is supporting you also in those malls. Eastgate is quite popular, so is Sandton City.

Do you have any preferential terms that you offer to your smaller
30 players, if you do how are these offered and on what basis perhaps. You do not have to give us examples of what you offered

them to.

MS BEATTIE: We do not have any preferential terms per say, we look at every tenant for its merits and look at what is required out of that space and whether it will deliver us the return that we are required out of those environments. So each one is unique and we look at each of them differently and we design their lease agreements accordingly.

CHAIRPERSON: Okay. I have been asked to put this question to you. What is Liberty Groups view as to why do retailers, or what
10 would influence a retailer's view to operate in a standalone setting or in a shopping centre.

That is our question 6 to the questions that are provided to you if you want to have a look at them. What would influence a retailer to choose a standalone versus a shopping centre setting?

MR URDANG: Madam Chair, I think in terms of question 6 and it's a marvellous question cause it is fairly all encompassing as to the, the environments that we have created. Really, the major reason that South Africa no longer has a predominant or it no longer has what we would call a predominant high street culture.

20 Many countries around the world have a high street culture which allows more for a standalone environment in terms of retail. Suburban malls and sprawl which has happened in South Africa is what has led to the uptake of, of these kinds of malls and the lack of a comprehensive public transport infrastructure has also influenced the suburban mall growth that has occurred.

Another situation we need to be very cognisant of is the security situation in South Africa. So very interestingly enough many years ago in malls that were build in parts of the world, one of the things that you never found were banks. A bank would be on a high street
30 and it would not have a branch in a mall.

In South Africa our malls are a well patronised by the South African

banking industry and that is purely because us as the users of those types of services feel allot more secure in those kinds of environments.

One of the major elements relates obviously to, to the supermarket industry and one would have thought from a convenience point of view it will always make sense for a supermarket to be standalone so that you can drive up to the front door, you can go in and do what you need to do, specifically with regards to perishable goods, et cetera.

10 I think what has happened in South Africa is that not withstanding that those daily visits occur as you have had a change between malls as well as high, as well as neighbourhood centres. So if you are looking for the complete convenience of driving up and quickly running in to get some of your fruit products, you will do that.

If you are looking for a holistic shopping experience where you need everything, then you will come into the mall. And why do people go to malls, because malls that are professionally run, well managed, creating environments for people where they feel comfortable to be there and I think when we have gone through the
20 kind of malls they were involved in. I think what we are saying is that we understand that necessity for the consumer to come into an environment that is safe, that is secure and as a result it is very different to the standalone mall.

We cannot compete, let us call it on convenience with a standalone mall. If somebody needs to buy a very small basket of goods, by the time they have parked on level eight and taken two escalators and a lift and walked down, they really. We have lost them as a consumer for that particular element.

And also what we need to be appreciative is that for those kinds of
30 malls that infrastructure does come as, at a cost. And therefore not everybody is able to operate within those malls and to operate at

that kind of standard and therefore what it does do is it allows for a huge variety of convenience and applicability within the retail sector of South Africa.

Hence the reason why it is amongst the largest in the world in terms of its offerings to the consumer.

MS BEATTIE: I think maybe just to add one point to that. Our business is property and that is what we do and we take care of all the things that are on property. The retailers business is retail and for them to then become going into the business as property as well if it is standalone, it is perhaps something that they would prefer to stay in retail and we stay in property so therefore putting the retail inside our property expertise, highly there is a better outcome for them than trying to become property owners as well retail business people in the same business.

CHAIRPERSON: Thank you. Just on the question of who, who for example are focus on Sandton City because everybody knows, most people knows Sandton City. So that would be a question that would be clearer to us all.

You have got Benmore Gardens and then you have got Atholl Square in that...just down the road on the other side. Would you consider those shopping centres a competitor to a Sandton City and if yes, whether yes or no we would like to understand reasons for your answer.

MS BEATTIE: So whilst we have been talking about Sandton City as a shopping centre actually we do not see it like that. We see, if you think about Sandton what he have. We've got Sandton City, we've got Nelson Mandela Square, we've got Convention Centre, we have hotels. So Sandton for us is a downtown business district that sits in the heart of Sandton and where else in Africa, let me not go to the world.

Where else do you have an environment where 200 000 people

everyday have to come to Sandton because they work there and so we have a unique situation where five days a week we have unparalleled weekday trade. If you try to go to a restaurant on a Tuesday or a Wednesday or a Thursday at Sandton on Nelson Mandela Square, you have to book you cannot just walk in. Whereas anywhere else if you want some users walk in and sit down, and that is the difference that is there at Sandton City, it is not competing in the normal sense of a shopping centre. And that is why we see it differently.

10 So these other environments that you mentioned that are around and many more. You know in that catchment area around Sandton there is lots of options for customers to go to, there is lots of places that whatever I want I can choose anyone of ten places to go to.

But Sandton is some unique environment from a downtown business district point of view where people come there during the week and they are there. They need something, they can go there, or they can choose to go on their way home at their Woolies convenience centre.

20 So I think the beauty of the environment that we find ourselves in at the moment is really around the choice that customers have. So they can either shop in their place of work and we can try and make it as easy for them to get there during the day. You will see a lot of work that we do in opening Sandton up to the environment so that people from all their offices can come in.

But they also have the choice of going elsewhere if that environment does not suit them, so there is nothing that forces them to come there but they have that choice. And that is why the competition for Sandton itself is a different, we think about it differently because we do not see it just as a shopping centre, we see it as servicing such a wide need in a different time than where

30

everyone else shops merely on weekends in shopping centres per say.

CHAIRPERSON: With that answer you are saying that you would not consider Atholl Square or Benmore Gardens to be a, I would not say not a competitor but not a direct competitor. Perhaps, would that be the best way to put it?

MS BEATTIE: I think we see it as the different choice that the customer have to make, those environments are different from Sandton.

10 CHAIRPERSON: Okay.

MS BEATTIE: And it is difficult to directly compare them because both of them, this would be Sandton answer to a completely different need.

CHAIRPERSON: So it is about the experience of the customer and what they, the customer wants at that particular time.

MS BEATTIE: Yes.

20 CHAIRPERSON: Okay. In terms of your. Okay, let me just ask this question because it is related to the question that we are discussing now. Would you consider Park Meadows to be a direct competitor of to Eastgate?

MS BEATTIE: Park Meadows?

CHAIRPERSON: Park Meadows.

MR URDANG: So, Madam Chair, obviously they situated one across the road from each other. They will, they will definitely compete. They have different tenancy however and they also have a very, very different convenience element.

30 So Park Meadows has got convenient open parking, whereas we mainly are an enclosed arcade style regional shopping centre. Park Meadows has got a combination of food retailer, pharmacy and then I would call them some outlet styles stores. So if you going and looking to buy linen the chances are that you are rather

going to do your comparative shopping of three different linen providers at Park Meadow then you would at Eastgate.

But if you are looking for fashion, which is really the orientation of most super regional malls, they really do have a concentration of fashion. Why, because it is comparative shopping. So I use a personal view, you can never have enough shoe stores in a mall because the almighty made everybody's foot different.

So as a man or a lady you have to go into virtually every store and see what fits and what looks nice. So it is comparative, so I think
10 on the one hand they definitely competitors on the other they are complimentary and I think that goes to your question earlier about retail. If you have a successful centre, it is virtual inevitable that the surrounding area immediately around it should also start becoming successful.

CHAIRPERSON: Sure. With regards to the tenancy in your malls, do anchor tenants and your ancillary tenants have any influence on your tenant mix at all? Or is it your decision as Liberty as to how you compose that tenant mix?

MS BEATTIE: I think the staple, the grouping that has got the
20 biggest influence on our tenant mix, our customers.

CHAIRPERSON: Okay.

MS BEATTIE: Because we can decide what customers want and no one will come and shop there. So we believe that we answer to the needs of a market, we do not just put the stuff there and then create the market.

So customers first for us what they want and then we look at the research that is available and try and do what is best in collaboration with the retailers because the retailers know a lot about customers as well.

30 If you are going to put those two things together we can really answer to customer needs rather than us deciding and then it does

not work because then you know we are a few people thinking about something. There is huge amount of customers out there that will tell us something, something different. I always say to the people in our business that you should not listen to us anymore because we are old and we do not actually answer to what the young people anymore.

So we actually listen a lot to what young people have to say because they are the shoppers of tomorrow and influence spend.

CHAIRPERSON: Yes. So your answer then would be, there is a
10 much lesser role or no role whatsoever played by anchor tenants and ancillary tenants in deciding the tenant mix in your shopping malls. It is more customer driven?

MS BEATTIE: I think it is mainly customer driven, I believe to say there is no influence because they do bring some information, they bring views to the parties. So we at customers decide in the end what, or determine in the end what we put there.

MR URDANG: Madam Chair, I would also say there is something where you, where you have nodding where you have a particular type of client base.

20 And I will just highlight one just as an illustration. So we have something called the diamond walk in Sandton City which are the most exclusive stores.

Obviously in that type of area you are going to be very sensitive as to who you put as neighbours in order to keep the integrity of that scheme in place.

CHAIRPERSON: Understood. What role do brokers, that is our question 39 in the list we send you. What role would you say brokers play in the development, in lease agreements, in developments? Brokers we gave an examples of Envestpro there,
30 what role do they play if any at all?

MS BEATTIE: So, we have no knowledge of Envestpro. We have

a very limited usage of brokers per se in our business because we have our property manager undertaking most of the lease work. Certain brokerages specialise in aggregation of tenant mix on behalf of developers.

We do most of the tenant mix, engagements ourselves and then as we said earlier our executives and asset managers would deal mostly with the larger leases and then the property managers leasing team would go and engage with all the smaller leases so we do not use brokerages to determine what is in our lease agreement.

We are very, very clear about the integrity of our lease agreement because those are like not having certain clauses. Like exclusivity in our lease agreements are sacrificing to how we do business and we got, we own those agreements ourselves.

CHAIRPERSON: Okay. In your presentation, Amelia, you touched on your rentals, the base rental and turnover rental and the fact that at times base rental could be more than... could be more than that players turnover and therefore it stays at that. Just explain to me, if can a tenant pay two types of rentals, a base rental and then if their base rental is below the turnover, will they then also have to pay turnover rental?

MS BEATTIE: Yes. So let me use an example to explain. Say we are saying that the tenant pays R100 a square meter of rental.

CHAIRPERSON: Hmm.

MS BEATTIE: And their turnover percentage is ten percent.

CHAIRPERSON: Hmm.

MS BEATTIE: If their turnover or their sales is one million rand and their turnover percentage is ten percent, they will only pay their hundred or the hundred thousand.

CHAIRPERSON: Hundred thousand.

MS BEATTIE: Hundred thousand of base rental.

CHAIRPERSON: This been 10 percent or one million?

MS BEATTIE: Yes, so if their turnover goes up to one and a half million, ten percent of that is R150 000.

CHAIRPERSON: Hmm.

MS BEATTIE: They will pay the additional R50 000.

CHAIRPERSON: Sure.

MS BEATTIE: To... as rental, so their total rental will be R150 000 which is ten percent of R1.5 million.

10 CHAIRPERSON: So that is where you would have a component of the first R100 000 would be base rental.

MS BEATTIE: Would be base rental.

CHAIRPERSON: And the R50 000 being a turnover rental.

MS BEATTIE: Correct.

CHAIRPERSON: So then you have a two type, okay.

MS BEATTIE: Yes.

CHAIRPERSON: And how are rental increases decided and calculated by... How do you calculate rental increases?

20 MS BEATTIE: We would be guided by the consumer price index and know the growth that we want to deliver on our net rental in our centres and we will be guided by the rate of growth in the turnover or in the sales of tenants themselves. So if average turnover grows by 12 percent over an extended period of time, we have to think about that in terms of the environment of setting the growth for our tenants, but there is a number of factors that plays into that, in how we determine our increases.

CHAIRPERSON: Hmm.

MS BEATTIE: And most of them are around CPI or inflation linked type growth rates.

30 CHAIRPERSON: Okay. Just going back to my... the question that I asked before this one, on base and turnover rental. Where you have... where you have a tenant that comes and paying a base

rental, and then when you decide to then charge a turnover rental, will that have been a turn in their list?

MS BEATTIE: Yes.

CHAIRPERSON: Or is it something that is later imposed or...
[Intervened]

MS BEATTIE: No.

CHAIRPERSON: wrote about?

MS BEATTIE: It is all contractual up front, in the lease...
[Intervened]

10 CHAIRPERSON: So they know at the beginning that should their turnover exceed their amount, the ten percent of their current base... [Intervene]

MS BEATTIE: They will know what their base rental is.

CHAIRPERSON: Yes.

MS BEATTIE: They know what their percentage turnover rental is, so the ten percent that I spoke about.

CHAIRPERSON: Hmm.

MS BEATTIE: And they will know what their increases will be for the duration of the lease.

20 CHAIRPERSON: Okay.

MS BEATTIE: They will also know what the cost, what percentage of cost they will pay, because they will pay their percentage of operating cost and then a percentage of rates and then they will be billed for water and electricity on consumption.

CHAIRPERSON: Ja.

MS BEATTIE: So those things are all detailed in the lease agreement. There is nothing that added on as the go along during the period.

30 CHAIRPERSON: In the course of last week we also got some information that... to the extent that some of the anchor tenants are able to negotiate themselves out of paying, costs, the costs

that are contributed by other tenants towards your common areas, would that be the case as well with Liberty Life where you... are these some of the benefits that you would give to your anchor tenants where they do not contribute, for example to electricity, that is incurred towards...

MS BEATTIE: So anything that can be meter, like electricity and water, everyone will pay their share of.

CHAIRPERSON: Hmm.

10 MS BEATTIE: So they... we have got meters in that would meet per tenant what they use and that usage will be billed to the tenant.

CHAIRPERSON: And the common arrears?

MS BEATTIE: The common arrears goes into what we call a operating cost.

CHAIRPERSON: Hmm.

MS BEATTIE: And on... for anchor tenants. So you have got gross rentals and net rentals in a property. So either you charge net rentals plus an operating cost portion.

CHAIRPERSON: Hmm.

20 MS BEATTIE: Or in some of the Anker tenants you would charge gross rental which is a rental that would encompass their portion of contributing to the cost plus the net rental portion. So it depends on how you structure the lease.

CHAIRPERSON: Is it Liberty Group's decision or is that a function of a negotiation between you and the tenant?

MS BEATTIE: It will be a negotiation between the tenants.

CHAIRPERSON: It is not tenants that are imposed on...
[Intervene]

MS BEATTIE: No.

30 CHAIRPERSON: It is actually your smaller tenants.

MS BEATTIE: Every lease in that centre is a negotiation between

landlord and tenant for every lease that we have. We negotiate every single term on those lease between the tenant and the landlord, depending on the unique circumstances of that tenant.

CHAIRPERSON: I am going to ask you this by virtue of the properties that you have in Umhlanga, Eastgate, Sandton City, I mean those are quite popular properties and there has been a concern raise by the smaller tenants to [indistinct - 01:06:34] this enquiry, not necessarily in grocery, just in a shop... in that shopping centre environment.

10 Basically the consent being that they are... they do feel that they have to contribute far more to things and these things, this common area costs, so there tend to be costs loaded on them and the minute it become a vocal person, a vocal tenant where you can actually point out that actually you should not be doing this.

I should be paying... where they try and fight for their rights in this situations, then the next time when renewal come, their leases will not be renewed and then they find themselves out of Sandton.

You have said already that everybody want Sandton. So it is almost a situation where disagreement from a tenant is not
20 tolerated by landlord where there is demand. Would you say that is the approach of liberty life or how do you handle situations like those?

MR URDANG: I think madam Chair the fact of the matter is that what differentiate something like Sandton to other properties are the smaller... in many instances are the smaller *nitch* tenants.

In other words so many of South Africa shopping centres are really a duplication one over the other and why would somebody come into what we term the central business district from elsewhere and come to what is a super-regional and those are by bringing in
30 smaller tenants.

What it really means is that one needs to recognise them, but on

the other hand as well, we must say that those are negotiations. It is not to extract more out of them. In fact, let me if you do not mind, make it quite clear, there is not charitable tenancy in terms of any large Anker or National at Sandton City.

There is no national or anchor tenant that could sit in front here and tell you that they have a sweetheart deal second to none. We must be cognisant of the fact that there are some leases that do stretch back the 40 years etcetera.

CHAIRPERSON: Yes.

10 MR URDANG: But even the new entrance, large entrance into the market over the last few years, if they have wanted to come in, they have come in on the basis of respect for South African retailers, what those retailers are doing. In respect of the landlord or respectful to all of those elements.

So I think what we are saying is, we look across, across every spectrum of it as to what works and if a retailer really makes a difference to the centre... [Intervened]

CHAIRPERSON: Hmm.

20 MR URDANG: ...they should have absolutely no fear of them not renewing their lease, because if anything they should get a fair and reasonable negotiation, because we really do require them, to play their role as much as anyone else.

Often what will happen though is if somebody's business is faltering they will then obviously start looking at elements, and that is not because we are unsympathetic, but is basically because of that demand.

If we can give the consumer what it is they are looking for in a replacement tenant for a bad tenant...?

CHAIRPERSON: Hmm.

30 MR URDANG: It will happen sadly.

CHAIRPERSON: Okay. Just to ask that question in a different

formant, format. Typically what factors would influence Liberty Group that do not renew a tenant's lease?

MS BEATTIE: We spoke earlier about trading density.

CHAIRPERSON: Hmm.

MS BEATTIE: And that for us is one of the main drivers in how we would review a tenant. So we review trading densities in respect, relative to the centre's trading density and relative to the category in which that tenant trades.

CHAIRPERSON: Hmm.

10 MS BEATTIE: If a category trades at R4 000 a square meter and this tenant trades at R1 500 rand a square meter and we believe as a tenant that can trade at R4 000 a meter... [Intervene]

CHAIRPERSON: Hmm.

MS BEATTIE: That would be a course for us then to look for a replacement tenant. So that has got nothing to do whether they contribute or not contribute to the cost.

CHAIRPERSON: Hmm.

20 MS BEATTIE: The trading for us is the one single biggest indicator of success in a business, because if they do well in their sales, then the centre is doing well, because then there is a partnership in terms of the turnover model that we have and that... that is the biggest driver for us in term of putting new tenants in or not renewing a tenant.

That tenant is failing in terms of sales.

CHAIRPERSON: *Ja*.

MS BEATTIE: Which means that actually not bringing enough customers into the environment and it is not something that is appealing to the customer of that centre, where they are located in.

30 CHAIRPERSON: Is there any ideal of you, is there any period that you give a tenant to allow, especially the smaller ones, sorry, to allow them to grow and achieve that straight intensity that is

ideal for you and what is that period more or less?

MS BEATTIE: Our leases are normally between three and five years.

CHAIRPERSON: Hmm.

MS BEATTIE: That we... that we generally have them. So normally a tenant would trade in their second year.

CHAIRPERSON: Hmm.

MS BEATTIE: They would know well, whether they would do well in that environment or whether the environment is not for them.

10 CHAIRPERSON: Is not for them. Okay, and sorry.

MR URDANG: Sorry I was going to say, in fact our lease is probably or amongst the most partnering in that regard, in that we do not have clauses which on an annual basis say to somebody that if they drop below certain percentages etcetera, that they is acceptable to a review lease or anything like that or a cancellation, not in any way.

CHAIRPERSON: Hmm.

MR URDANG: So I was basically saying we have all committed to this term.

20 CHAIRPERSON: *Ja*.

MR URDANG: During the portion of this term, be it three or five years. It is up to all of us to try and make the best out of this and at the end of the day, if they are not doing their trade indensity, very, very often they not really getting the return on the investment that they should be getting either.

So I think we... we understand the commitment they have made up front. We give them the full term of that leasing, which... to be a partner with us, because there are cycles that happen as well, and that... and we recognise that.

30 CHAIRPERSON: And that choice of between a three yearly's term and a five yearly's term, is that Liberty Life decision or a function

of an outcome of a negotiation?

MR URDANG: It is the function of a negotiation and more so it is actually the function of a partnership... [Intervene]

CHAIRPERSON: Hmm.

MR URDANG: Because a five year lease term for argument sake, is a huge commitment financially.

CHAIRPERSON: Okay.

MR URDANG: As supposed to a three year lease term.

CHAIRPERSON: Hmm.

10 MR URDANG: And therefore we would not be prescriptive. We look at the business. We will be extremely sensitive as I said, often with new attendances. Saying to them, please you know, just us let look at what works for you, but obviously the capital expenditure of doing up a store in order to stock it correctly, to make it look nice, et cetera, means that very seldom will you get somebody who could spend that capital and have a one or two year lease commitment.

CHAIRPERSON: Thank you.

20 MR URDANG: Just to look at the... and now question 48 to you, we ask what is the beneficial occupation period, like what is meant by that. Just for us to understand the concepts that are used in some of the lease agreements and end rent fee beneficial occupation.

What is meant by those concepts, when we read this lease, what does that mean?

MS BEATTIE: So beneficial occupation is a period in which we allow a tenant to fit out the store.

CHAIRPERSON: Okay.

30 MS BEATTIE: So we recognise that someone cannot close today and another person can close, open tomorrow.

CHAIRPERSON: Ja.

MS BEATTIE: So they need a certain period in which the shopfitters must come in and, you know, build shelves and all those things, and we also recognise that during that period they did not trade. They do not have an income. So we would generally give that as a rent free beneficial occupation period, so that they... by the day they open they can start trading properly and they have had that time to get the shop ready for trade.

CHAIRPERSON: Okay. Thank you. Any other question? Okay. I think that is all from us. Oh sorry. I think we can have a short
10 process and it will be just on those specific questions, but we will let you know.

MR KHUMALO: Sorry, just a follow up regarding the discussion around trading densities. Can that ever lead to ... I mean you mention a, say a R4 000 a square meter and a R1 500, but what within that range, between R1 500 and R4 000 square meter would be acceptable to Liberty or do you just have to hit R4 000 square meter?

MS BEATTIE: No. Sir as I said we would look at all the different... the multiple inputs into that. So there is the category in which the
20 tenant trades, so jewellery or fashion or food or whatever. There is the overall centre... where the centre is trading. There is where that tenant trades in some other malls that we have and their industry bench marks that we look at.

So we would very much recognise and I am using R4 000 as an example, and it is just an example. I do not take it as anything that indicates anything, very much aware that something Like Sandton City, the trading densities are extraordinarily high. So not necessarily every single tenant needs to trade at that level. We look at the multiplicity of members and would then make an
30 informed call as to why we think that is the right number.

We have got a lot of other tools that we share with tenants. We

have got a camera counting... a camera system that counts people. So we do not do the normal foot count system anymore, where you break the beam by walking pass, because you know if you push the trollies passed there, you think people walked past the store.

10 So we actually share with tenants actual information around people passing through, throughout the period of their lease, so that we can assist them as much as we can, with getting the merchandise right, targeting right, customers and getting their trading density up.

So there is no single answer to say that if you do not make R4 000 you are out. There is a whole... there is a number of factors to take into account, including the macro economy and what the demand is at the time and all the other things that goes into that.

MR KHUMALO: I just... I can put it this way. We have heard that some landlords will not renew tenant's lease, because that tenant did not meet their own turnover projection. So I just wanted to find out what is your... what is your view?

20 MS BEATTIE: So Mel shared with you that our lease do not have that provision in. So there are many leasers that has got provisions in, that is call the performance clause.

So if you do not meet the certain performance criteria then, you know your lease can unilaterally be cancelled. Not even at renewal stage, any period during the lease when you have that, had that lower density and that is something that exist anywhere in the world. It is not a South African specific thing.

30 We have chosen to do something slightly different. To work with the tenants over a period of the lease and to at the end of the lease, then determine whether the lease get renewed or not and in some cases the tenant will not trade at the required level, but we will still renew that lease, because that is what... Customers need

that shoe gobbler in the centre and you know, as part of our tenant mix, we need that.

CHAIRPERSON: Okay, there is suggestion from my colleagues is that perhaps we do not have to go into a close session, just those two questions. If we... if at all we can just follow up on those two or related questions around the points that we asked earlier, which you felt uncomfortable to deal with in public and I think that... that basically brings us to the end of our questions to you. Unless you have closing remarks that you want to make?

10 MS BEATTIE: Thank you very much hearing panel. If you have any other questions we would be happy to deal with them, if we need to.

CHAIRPERSON: No we do not and we do promise, you would not be getting any lengthy questions from us again. Desmond. *Ja*. Thank you very much. Thanks a lot.

MS BEATTIE: Thank you.

CHAIRPERSON: We really appreciate your submission today.

MS BEATTIE: Thanks.

20 CHAIRPERSON: Thank you. With that ladies and gentleman, we have come to the end of this public hearing in Gauteng, held in Pretoria. We are closing our... *ja*. This is the end of the day for us and we are saying good bye to everyone and thank you to all of those people who have come to listen and provided audience for us and especially to the media that has given coverage to what we are doing, because that is important to us.

There are a lot of parties that we are... that this enquiry seeking to assist, parties that can never ever make it to this public hearings on a daily basis or at all. So having the media's presence and our reporting on what the commission is doing, is of great assistance, especially with regards to this enquiry. Thank you very much.

30

MS BEATTIE: Thank you.

HEARING ADJOURNS
