Wereldhave

Q1 2020

Trading update 24 April 2020

make every day count

Key items

Q1 leasing firmly above ERV in all countries

Operations significantly impacted by Covid-19

Final dividend 2019 cancelled

No interim dividends for FY 2020, final dividend 2020 to be paid in 2021

Liquidity preservation measures taken

First green financing facility of € 100m secured

March 2021 refinancing of maturities secured

Disposal of WoensXL in Eindhoven completed

Message from the CEO

“Everyday life has changed rapidly over the last months. Trading conditions in our countries have been far from normal. As of mid-March, lockdowns and forced closure of non-essential stores lead to a large decline in visitor numbers, retailers sales and tenant payment behavior. Our action plan this period has been to provide fair support to our tenant-base and improve our financial profile where we could. These topics will remain high on our agenda. Meanwhile we can rely on detailed plans for the future to turn our centers into Full Service Centers that are set to become future-proof investments.

Our leasing team has delivered good achievements by leasing on 13% above market rents in Q1. Customer satisfaction of our centers remained stable in the Benelux. We have made progress on Full Service Center transformation by the creation of a healthcare cluster in Presikhaaf (Arnhem).

Retailers that are struggling need our support. We are in close contact with our tenant base to see how we can partner up with them to provide fair support during these challenging times. However, we do not apply one size fits all arrangements. We are actively making arrangements on a tailor-made basis with our retailers, focusing on tenants that really need our support and fit well within our Full Service Center format.

We expect that COVID-19 will accelerate the changes in retail that we already addressed in our new strategy. Retail segments that were already struggling, are now hit hard by forced shop closures. This increases the need to create future-proof Full Service Centers to deal with the new economic reality. A reality that manifests itself rapidly. Proximity is becoming even more important, as consumers will increasingly want to shop locally, to reduce their travels. Local heroes are becoming even more popular, and this is a segment that is highly represented throughout our portfolio. The blueprints form the guiding principle in our action plans. Each plan is locally tailored to benefit consumers, tenants and shareholders. The blueprints we made for each center will therefore become reality sooner than we envisaged. The urgency of our new strategy has increased, whilst we require time for the roll-out of our plans.

Despite our commitment to the disposal process, we expect that proceeds from property disposals during this period will be limited and have taken measures to manage our liquidity. Therefore, we will have to start implementing our plans on a low-cost basis and will have to postpone large investments, as we aim to keep our loan-to-value low.

We have made significant steps by reducing our committed development pipeline and adjusting our dividend payments. In order to secure our 12 months liquidity profile, we have now tackled our March-2021 maturities by securing a new EUR 100m Green Revolving Credit Facility. I am proud of our finance team who managed to arrange this in difficult times.

As it is yet uncertain how long the crisis will last and the impact of mitigating government support measures are not clear, we must withdraw our outlook for 2020 EPRA EPS. We will update as soon as we have regained sufficient visibility on our earnings. We are convinced that this crisis will accelerate the need for a shift towards multi-functional centers and we will therefore continue with our strategy. LifeCentral will remain the key direction for our portfolio.”

Matthijs Storm – CEO

Schiphol, 24 April 2020

Summary

	Q1 2020	Q1 2019	Change
Key financial metrics (x € 1,000)			
Gross rental income	49,004	52,261	-6.2%
Net rental income	39,411	43,545	-9.5%
Direct result	29,748	31,960	-6.9%
Indirect result	-7,925	-3,348	136.7%
Total result	21,823	28,611	-23.7%
Per share items (€)			
Direct result	0.66	0.70	-5.1%
Indirect result	-0.15	-0.08	95.9%
Total result	0.51	0.62	-17.6%
EPRA EPS	0.66	0.70	-5.1%
Total return based on EPRA NAV	0.47	0.64	-26.6%
Dividend paid	0.63	0.63	0.0%

	31 Mar 2020	31 Dec 2019	Change
Key financial metrics (x € 1,000)			
Investment property	2,889,446	2,906,686	-0.6%
Assets held for sale	2,400	9,880	-75.7%
Net debt	1,303,815	1,314,824	-0.8%
Equity attributable to shareholders	1,329,826	1,319,598	0.8%
Per share items (€)			
IFRS NAV	33.04	32.78	0.8%
Dividend paid	0.63	0.63	0.0%
EPRA performance metrics (€)			
EPRA NAV	32.83	32.99	-0.5%
EPRA NNNAV	31.65	31.81	-0.5%
EPRA Vacancy rate	6.2%	5.4%	0.8 pp
EPRA Cost ratio [1]	25.2%	25.2%	- pp
EPRA Net Initial Yield	5.8%	5.8%	- pp
Other ratios			
Net LTV	44.8%	44.8%	- pp
ICR	6.3x	6.6x	-0.3x
Number of ordinary shares in issue	40,270,921	40,270,921	0.0%
Number of ordinary shares for NAV	40,254,932	40,255,423	0.0%
Weighted avg. number of ordinary shares outstanding	40,255,094	40,251,654	0.0%
Shopping Centers portfolio metrics			
Number of assets	30	31	-3.2%
Surface owned (x 1,000) [2]	840	851	-1.3%
LFL NRI growth	-3.6%	-0.6%	-3.0 pp
Occupancy rate	94.1%	94.8%	-0.7 pp
Theoretical rent per sqm	227	227	0.0%
ERV per sqm	215	215	0.0%
Footfall growth	-9.3%	1.1%	-10.4 pp
LFL tenant sales [3]	0.8%	1.2%	-0.4 pp
Occupancy cost ratio	12.6%	12.5%	0.1 pp
Customer satisfaction Benelux (NPS)	-	-	- pp

1 Excluding COVID-19 impact
2 Excluding Emmapassage Tilburg
3 First two months of 2020

Operations and the impact of COVID-19

Since mid-March the markets in which we operate have come into a lockdown, with the Netherlands applying a much more retail friendly regime than the other countries.

On March 18, Belgium went into a lockdown, resulting in the closure of all non-essential stores. This situation has been extended until May 3, with the exception of DIY and gardening centers that can now open their doors.

The French government imposed its measurements to reduce the impact of COVID-19 also mid-March. It consist of a lockdown of the entire country, which is currently scheduled to end on May 11, and the closure of non-essential stores. The process of fully re-opening the centers is expected to last longer, as restaurants and leisure activities will remain closed for a longer period of time. Under certain circumstances, gardening centers and DIY stores can re-open mid-April.

At the same time, the Dutch Government has implemented an intelligent or targeted lockdown, a measure that allows retail to continue under restrictions. In the early stages of the lockdown, many stores closed their doors voluntarily and footfall plummeted. However, we now see footfall rising again and an increasing number of shops is reopening. In some centers, footfall is already at 75-80% of the pre-COVID-19 levels, even though most ‘mixed use’ tenants (lunchrooms, café’s, fitness clubs) are still closed because of the government measures.

Occupancy

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Belgium	95.8%	96.2%	96.3%	96.3%	96.4%
France	92.2%	92.0%	92.2%	92.8%	90.5%
Netherlands	97.0%	97.2%	96.1%	95.1%	94.8%
Shopping centres	**95.5%**	**95.6%**	**95.1%**	**94.8%**	**94.1%**
Offices (Belgium)	88.9%	92.6%	91.7%	89.2%	87.0%
Total portfolio	**95.2%**	**95.5%**	**95.0%**	**94.6%**	**93.8%**

Impact of COVID-19 crisis on our centers

The spread of the COVID-19-virus towards Continental Europe has led to a range of different measures affecting the business of our centers in each of the countries where we operate. The lock-down of the country as a whole, closing down non-essential retail, or other retail segments like F&B, adjusted opening hours, closing down schools or advice to work or stay home, all have a strong effect. The decline in footfall and subsequently, retail turnover has resulted in many non-essential retailers seeing turnover dry-up almost completely. Cleaning and surveillance efforts have increased to ensure safe visits to our centers and upholding government measures such as keeping safe distance. Local shopping has become more important, and this is our key market segment with shopping centers that mainly serve their primary catchment area.

Rental payments

Before COVID-19, Wereldhave operations were showing decent results, with rental levels of new leases well above ERV in all countries. Since mid-March, the impact of the COVID-19 situation had a significant impact on payment behavior. We have received many requests from tenants for a change in payment of the rents, ranging from moving to monthly payments, deferral, discounts or letters stating tenants will not pay the rent at all.

In France and Belgium all non-essential stores were closed due to the lockdown. As a result 8% of the stores in France and 21% in Belgium remained open. In the Netherlands, approximately 60% of the stores remained open, but many tenants have announced to pay only part of the rent or no rent at all in Q2, or demanded looser payment conditions to preserve cash. Retailer and landlord organizations have meanwhile come to an agreement on guidelines on rent payment. This allows Wereldhave to apply tailor made solutions on a case by case basis.

Measures taken

We recognize a risk that the real estate investment market for shopping centers could be in a protracted illiquid phase. In such a scenario the ability to execute disposals mentioned in our disposal program for France and in other countries, as announced at the FY 2019 results, could take longer than initially expected. In order to improve our liquidity and funding profile, Wereldhave has implemented a plan to preserve future liquidity:

- Cutting down on committed development pipeline by € 75m results in commitment obligations of € 32m
- Cost cutting program to reduce running costs
- Completed the disposal of shopping center WoensXL
- Withdrawal of the proposal for a final dividend in respect of 2019 of € 0.63 per share
- No quarterly dividend payments for 2020, but a final annual dividend payable in 2021
- New green financing arrangements amounting to € 100m
- March 2021 debt expiries covered
- Service charge reduction program to lower the financial burden for retailers in France and Belgium, including using temporary unemployment schemes
- Providing fair support for retailers with tailor-made solutions; we have introduced guidelines for our local teams on how to act
- Bi-weekly live-stream presentations and Q&A's for the entire organization

Post COVID-19

We expect that over the next few months lockdowns will be lifted gradually but that social distancing will remain obligatory for a longer period of time, to prevent a second wave of contaminations. We are actively preparing our centers and our operations for the new reality of a 1.5 meter society. According to our calculations, our centers are able to accommodate their regular pre COVID-19 footfall whilst respecting the social distancing rules, provided footfall is evenly spread over the day. Our plans include marketing actions together with our retailers that are time-slot specific, thus enticing visitors to frequent the center in less busy opening hours. Operational plans focus on routing and signaling to make the centers 1.5 meter proof and to show that the centers are a secure and safe environment. Quick actions need to be prepared in case of high visitor numbers to avoid governmental measures like forced closures. From an technological stance, real-time footfall monitoring and adding a panic button for retailers on the Flow by Wereldhave tenant app are the most promising measures.

The government measures have drawn consumers more towards buying products online. We expect this will be significantly reduced post-COVID-19 and envisage that consumers will increasingly want to shop locally, to reduce their travels. Local heroes are becoming even more popular, and this is a segment that is highly represented throughout our portfolio. Nearly all our centers are grocery anchored and mainly serve their primary catchment areas, whereas larger regional malls depend on vast secondary catchment areas and extended travel time, with fashion as the main anchor. Recent footfall numbers of our shopping centers in the Netherlands show the success of local malls, such as Winkelhof in Leiderdorp.

Consumers will also become more price sensitive. This is also a trend that fits within our retail strategy. Our centers are designed to support everyday life for its consumers. It consists for a large part of essential stores (e.g. supermarkets, pharmacies, etc.), stores for everyday retail (e.g. specialty food, homeware & household, pet stores, perfumery, etc.) and other segments (e.g. services, healthcare, DIY and gardening, etc.) that offer a resilient profile to the economic impact of the Covid-19 pandemic. These categories represent 48% of our annualized rents of our portfolio.

Implications for our new strategy

We will therefore continue our strategy, as the retail trends of oversupply and changing consumer behavior have accelerated by the COVID-19 crisis. We will of course set the sails to the new reality. We are updating the blueprints, reviewing the red flagging of weaker tenants and repositioning our lay-out plans.

We expect that there will be a preference shift in mixed-use from F&B / leisure / entertainment to residential and healthcare. Our collaboration with Amvest was accelerated, with the objective to unlock the residential potential within our portfolio. The transformation to Full Service Centers will be prioritized again, as some assets are more impacted by COVID-19 than others. We see that the polarization between the stronger and weaker centers is continuing. The unlevered IRR that we apply for our investment decisions needs to be updated in connection with post COVID-19 ERVs, and the 25 percent of our floorspace that needs to be transformed may turn out to be a higher number.

We will remain cautious on investing and do not foresee larger plans to start before the markets have calmed down and resumed business. The required unlevered IRR threshold of at least 6% remains intact, calculated against post the COVID-19 market reality.

Outlook

Given the uncertainties on timing and magnitude of this event, Wereldhave withdraws its guidance on EPRA EPS and dividend per share for 2020. Wereldhave will cease its quarterly dividend payments for the 2020 result and move towards an annual payment. Under normal circumstances, Wereldhave will stick to its dividend policy of distributing 75-85% of EPRA EPS. Payment of the 2020 dividend should then occur in 2021.

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