

# Opportunities and challenges for retail property in SA



Dirk Prinsloo, MD of Urban Studies



The brand new Mall of Africa already serves a market of some 100,000 households

Baywest Mall in East London, which was developed a few years back



Fourways Mall is one of many which has been revamped and extended recently

It is an interesting time for retail property in South Africa at the moment, with a number of challenges facing shopping centre owners and developers, and yet with certain opportunities still present in the market. Dr Dirk Prinsloo, MD of specialist research firm Urban Studies, highlights a few of these for Shopping SA.

With a slowing economy and growing pressures on the consumer, one of the most immediate challenges for the shopping centre industry is to fill the malls we already have with shoppers before we develop too many more. This applies particularly to the development of regional and super-regional centres around South Africa. Based on his research and knowledge of the retail market, Prinsloo believes that we will likely see a maximum of 500,000 to 600,000 square metres of major new retail space come to market over the course of the next year.

Periodically, debates arise as to whether we are oversupplied in terms of retail. "South Africa currently has the fifth highest number of shopping centres in the world," he says – so perhaps the current market has reached saturation for now. However, whilst this is probably true for most urban areas, many of the developers whose focus is on the previously under-served rural and former township areas are still finding opportunities. "We are still doing a number of studies for new developments in the rural areas, bigger towns and some of the new growth areas in metropolitan regions, but overall things have slowed down. We're not going to see the same rate of shopping centre development going forward as we did some years ago, when we built between one and two million square metres of retail space over the course of five years," he comments.

Talk of 'dead malls' in countries like China and America (which has about 450 malls currently standing vacant) has also given rise to some discussion in our market about whether we could see the same thing happening here. "There are a number of reasons that malls die," Prinsloo explains. "Sometimes it's because of increased competition; it could be because a particular centre hasn't adjusted its tenant mix appropriately over time; or perhaps the owners haven't maintained a centre as well as they could have." He adds that some of our shopping centres are already heading this way, for different reasons. For some, their location has not worked well for them; for others, their layout or format has been lacking. For still others, better options have come along for consumers, who have simply gone to a more convenient or attractive centre.

Retail cannibalisation - where a retailer's store has its market share eaten into by the same brand of retail store down the road - is also resurfacing as a concern in some instances. While Prinsloo notes that new centres such as recently-opened Mall of Africa will likely take some market share from malls in surrounding nodes such as Sandton, Fourways, Forest Hill and Centurion, most of these nodes have regional or super-regional centres which have large and established customer bases and which won't suffer dire consequences. In addition, he points out that Mall of Africa is ideally situated to serve the immediate Midrand and Waterfall City catchment areas, which include around 100,000 households (and which are still growing).

Asked whether retailers are forced to choose whether or not to be present in two proximate centres, Prinsloo says there is some resistance being experienced in the market, and that retailers are certainly being more cautious, but that in certain instances they just cannot afford to lose out on having a presence in a particular location. Having said that, the developers of retail centres have had a good run of it for many years, but are now seeing rising vacancies. "There is pressure on rental levels, and it's harder to secure and retain new tenants – so things are tougher out there for everybody at the moment," he comments.

One trend that we have been seeing in the market for some years is that many established regional and super-regional centres have embarked on extensions and refurbishments. "These malls are already well-established in good locations, with solid customer bases. It is necessary for them to refresh their offerings, update tenant mixes and create opportunities for new tenants in order for them to stay relevant and appealing to their markets," Prinsloo says. This is particularly important in light of the fact that many international retailers are now showing interest in taking space in South African malls, and shoppers are excited to have them.

In terms of the demographics that they appeal to, many shopping centres have broadened their offerings to cater to a wider market over the past ten years. Whereas a centre like Hyde Park Corner in Johannesburg used to cater for the LSM 10 shopper, it now serves LSM 8 to 10 shoppers. Similarly, many of the other strong regionals now cater for LSM 6 to 10 shoppers. "This is indicative of a very strong and growing middle market," he says, adding that according to some of the research done by Urban Studies, the LSM 5 to 7 category has grown by around four million households, whilst the LSM 8 to 10 category has grown by approximately 1.5 million households in that time. On the one hand, this creates a situation where the retail 'cake' is growing, but on the other, rising costs of living and high consumer indebtedness are holding back discretionary spend.

Whilst differentiating oneself from all the other centres is becoming difficult, particularly since most of the major retailers are represented in all the regional and super-regional centres, Prinsloo comments that on the positive side, many South African shoppers will spend a day shopping as an outing, and will 'spread their favours' among several centres that they may have access to.

In broad terms, the fact that the rate of urbanisation in South Africa looks set to continue for some time (we are currently about 65% urbanised) means that there will still be opportunities for new retail developments in future. However, broader economic growth and the ability of local authorities to put the right services and infrastructure in place to serve growing areas will be important. Whilst the pace of new retail development is likely to be subdued for some time to come, Prinsloo compliments the South African property industry on its resilience and inventiveness, saying that one of its hallmarks seems to be that even when prospects look dire, someone always finds a way to innovate and create new demand.

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