

# How digitalisation is impacting the listed property sector

The worldwide structural trend of consumers increasingly choosing to shop online instead of at their local mall will have implications for the South African listed real estate sector and for investors who hold this sector in their investment portfolio.



Image source: [www.pixabay.com](http://www.pixabay.com)

Online stores offer a convenient and safe shopping experience with better choice than is available at the local mall at times. Traditional sit-down and quick-service restaurants face similar headwinds to conventional retailers — fewer feet walking through malls mean fewer hungry mouths to feed at shopping centre food courts.

## Retailers need to adapt to incorporate the online user experience

Suppliers and distributors that service these establishments are finding that their customers require less frequent or fewer deliveries. Daniel Gerdis, equity analyst at Foord Asset Management says the challenge these retailers face is how to earn a reasonable return on capital invested in inventory and fitting out and refurbishing stores that are frequented by fewer customers.

"Traditional retailers are having to adapt their offerings to incorporate aspects of the online user experience into physical stores. One such initiative is Click and Collect — the process by which an online order is collected at a physical store. It offers the convenience of online shopping with faster availability and flexible collection times, while driving footfall into the store to facilitate cross-selling opportunities. The downside for mall owners is that retailers require less store space.

"Restaurants and food retailers are also making changes to their business models. The new trend is dark stores — restaurants distributing entirely via food delivery apps with no shop front."

## Differentiated shopping experience

"For mall owners, digitalisation is an added headache that did not exist just a decade ago," says Gerdis. "Malls must now compete to remain a relevant and attractive destination for shoppers. One approach taken internationally is to create a differentiated shopping environment for the customer by introducing new concepts such as pop-up stores, free Wi-Fi and unique haptic retail experiences that cannot easily be copied by online retailers. This comes with added cost and risk."

According to Gerdis, in the office segment, space has steadily expanded at an average pace of 1% per quarter for the past

15 years. But digitalisation now offers workers increasing mobility and flexibility in how and where they work. Corporates are adapting to this changing environment innovatively, with shared workspaces, hot-desking or by allowing employees to work from home. “This implies divergence in the size and type of office space demanded by prospective tenants from what landlords have traditionally supplied.”

## **Changing consumption patterns mean changing investment patterns**

“These changing consumption patterns are headwinds to the South African listed retail and office property sector and investors should take a pragmatic investment approach in the sector — by choosing property counters that sidestep the retail and office segment risks and instead benefit from the long-term themes of urbanisation, digitalisation and densification. Segments that fit these criteria are warehousing, logistics and self-storage,” concludes Gerdis.

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