

Johannesburg Retail Market Outlook

Q2 2015

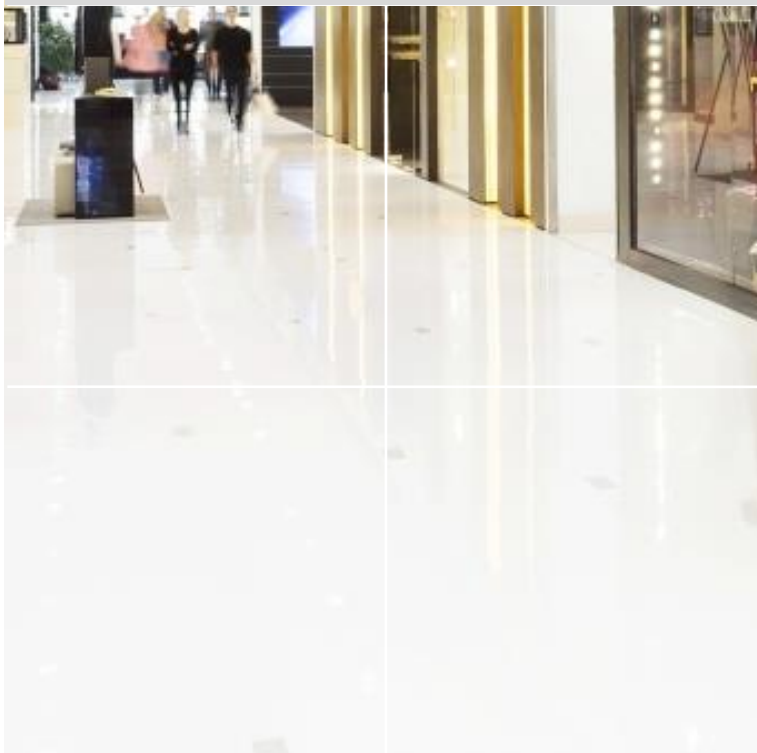






Highlights

The muted growth in consumption and household credit is likely to see demand for retail accommodation remain largely unchanged from current levels.

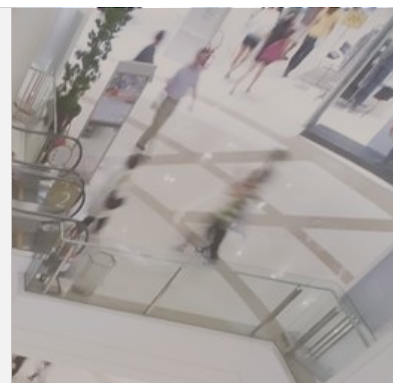
Occupiers in super-regional malls can expect to see annual rental escalations averaging around 7.0%.

Despite weak consumer confidence, the anticipation of new malls and the growing interest of international brands and retailers is indicative of the positive long-term outlook of the local retail sector.



 Prime gross rent/month 1,000 ZAR/m² per month	 Prime yield 7.5%	 Vacancies malls > 25,000m² (SAPOA) 4.0%	 Total gross leasable area (GLA) ('000 m²) 3,444m²
▶	▶	▶	▲

Source: JLL 12 month outlook



Demand

The decline in consumer confidence in the latest FNB Consumer Confidence Survey does not come as a surprise given the pressure on household incomes and the decelerating trend in aggregate retail sales figures. However, this is more likely to drive slower growth than to result in a contraction in household consumption. Overall private sector consumption at constant prices is expected to grow by 2.0% during 2015.

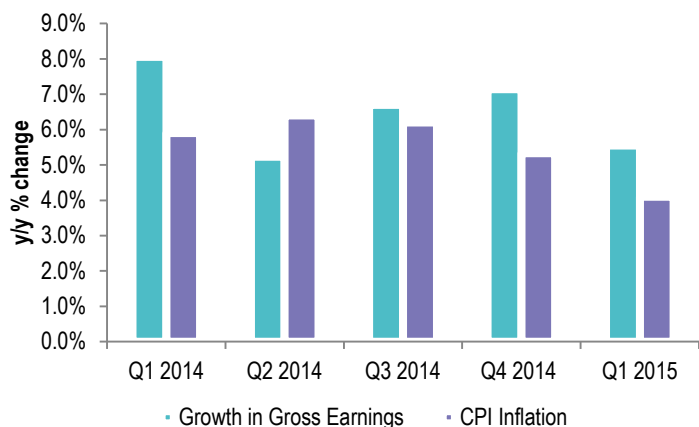
June saw the release of the Q1 2015 earnings numbers by Statistics South Africa, a leading indicator to consumption growth. Although national earnings growth slowed to 5.6% y/y in the quarter from 7.1% in Q4 2014, this remained at a level above inflation, supporting continued growth in household consumption over the short term. This is further evident in the slower household credit growth which slowed to 1.2% y/y in Q2 2014, from 3.6% y/y in Q1 2015.

The muted growth in consumption and household credit is likely to see

demand for retail accommodation remain largely unchanged from current levels. However, at a vacancy rate of 4.0% in the larger centres (25,000m² and larger), the market can anticipate continued stability in retail accommodation. Demand is neither contracting, nor expanding, and this is likely to continue for some time to come.

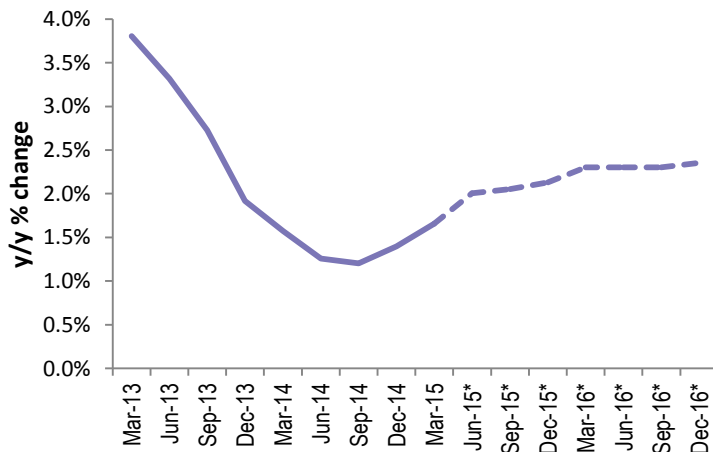


Figure 1: Growth in gross earnings vs. consumer inflation



Data: Statistics South Africa

Figure 2: Growth in final consumption expenditure – constant prices



Data: SARB

*Forecast

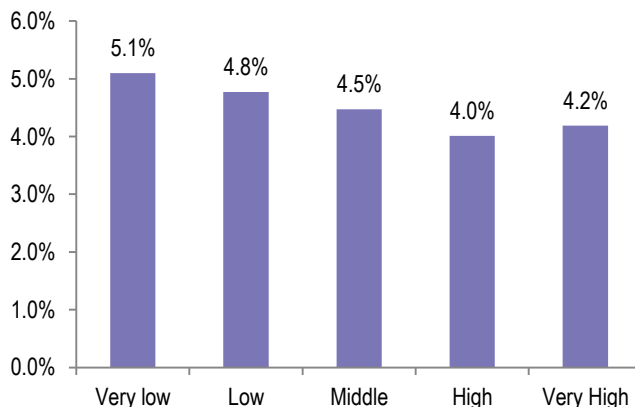
Inflation by income groups and disposable income

Figure 3 provides a summary of inflation by income group on a year to date basis (January to June 2015). Inflation plays a significant role in determining real purchasing power of households.

Note the higher inflation rate in the lower income groups in comparison to higher income groups, reflecting the rising costs in transportation and food which account for a higher proportion of expenditure in lower income households.

The implication for retailers is that lower income earners are likely to show a greater deceleration in expenditure, particularly in non-essential or luxury goods. This is a contributing factor to the high tenant turnover in line shops of some regional malls.

Figure 3: Inflation by income group – 2015 year to date average



Data: Statistics South Africa

Supply

The Q1 2015 retail report made mention of the ongoing investor confidence in retail accommodation. The Mall of Africa and The Mall of the South alone will add a combined 185,000m² of retail GLA in Johannesburg. The continued expansion of the city can not be ignored and justifies the additional stock in the Johannesburg market. Gauteng accounts for a growing 31.7% of employment in the country, and the migration of professionals from other provinces has increased the combined disposable income in the Johannesburg area.

Larger shopping centres, which account for the bulk of retail stock, have maintained a low vacancy rate, contributing to an upward trend in rental rates. Occupiers in these malls can expect to see annual rental escalations averaging around 7.0%.

With regard to smaller regional centres, the performance balances on large, well-known anchor tenants. Shopping centres, especially in previously underserved areas including townships and rural areas, continue to do well. The convenience of these centres, many of which are anchored by large grocery retailers selling essential goods, have

an incentive to remain in the centres and end up paying higher rental rates per square metre than the surrounding line shops as a result of annual escalations. Low vacancies are driven by these large occupiers whilst the rest of the centre has a high tenant turnaround and a subdued rental growth.

Outlook

The anticipation of new malls and the growing interest of international brands and retailers is indicative of the positive long-term outlook of the local retail sector.

It is expected that higher rental growth will be maintained in the larger regional and super-regional malls whilst smaller centres struggle to retain less established retailers taking occupancy in line shops.

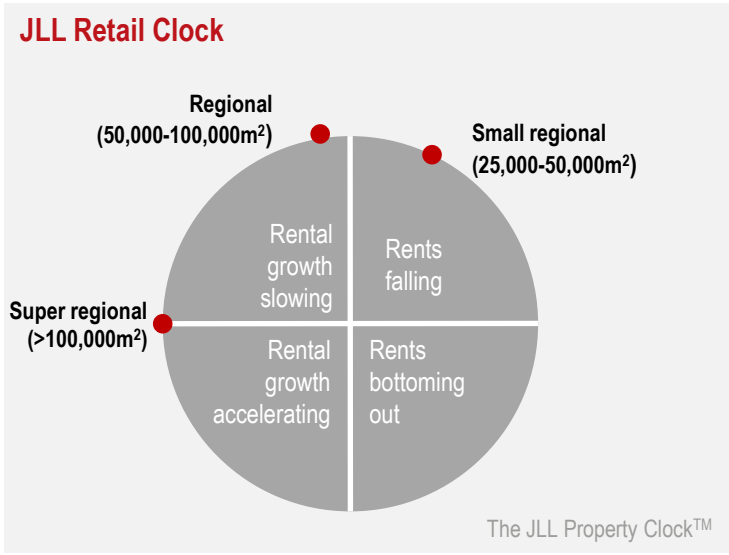


Table 1: Indicative development projects*

Development	Approximate size (m ²)	Node	Developer
Mall of Africa	120,000	Waterfall Estate	Attebury Property Management
Mall of the South	65,000	Johannesburg South	Zenprop Property Management
Springs Mall	55,000	Springs	Flanagan and Gerard
New Market Mall	33,000	Alberton	Periscopic Property
Mogale City Mall	26,500	Mogale City	McCormick Property
Dainfern Square	25,540	Dainfern	Abacus
Leratong City Mall	25,000	Krugersdorp	Retail Network Services

*Source: Rodé

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