Less is not more at the mall

Consumers' appetite for retail therapy may not have recovered to pre-recession levels yet but most mall owners continue to ring in good profits.

By Joan Muller 27 May 2011

In fact, SA has over the past two years been the most lucrative retail property investment destination amor 23 countries worldwide, according to UK-based property research group IPD.

SA shopping centres delivered a compound total return (income and capital growth in local currency) of 23.1% in 2009 and 2010 (see table). Ireland, the world's worstperforming retail property market, delivered negative 27.6%.

The fact that SA's retail property sector has emerged from the global downturn in better shape than many others may come as a surprise, particularly given the number of new shopping centres that have mushroomed on suburban street corners in recent years.

Since 2007 alone, SA's tally of malls bigger than 30000m² has surged by 50% - from 88 to 131 - based o figures from the SA Council of Shopping Centres. But clearly the rapid increase in retail space hasn't suppressed rental growth and mall valuations, as retailers continue to open new stores and expand existin ones in key shopping nodes.

Data revealed at the annual property owners' convention held earlier this month in Cape Town shows that S retail vacancies are also lower than in many other countries. In the US, for instance, retail vacancies were s around 18% in the first quarter of 2011. In contrast, SA shopping centre vacancies are at a relatively low 5.5%.

Though SA retail developers and property investors have in recent years been criticised for building too many large malls, IPD data reveals that the bigger the mall, the better the return.

Super-regional shopping centres - malls exceeding 100000m², like Sandton City in Johannesburg and Ca Walk in Cape Town - delivered a total return of 16.9% in 2010. That compares to 9.5%-13.3% for smaller malls (see table).

Keillen Ndlovu, head of property funds at Stanlib, says it's no surprise that larger malls have proved more resilient during the downturn than smaller ones, as they offer the right critical mass for comparative shopping. "Regional malls attract a higher foot count and a higher spend per head, encourage a longer dwelling time, draw a larger market and boast a better tenant profile. They have thus shown lower levels of tenant failures, arrears and bad debts than smaller centres."

However, that doesn't mean developers, shopping centre owners and retailers can continue expanding. Ndlovu believes there are limited opportunities left to build more new malls, particularly large, regional one in metropolitan areas. Opportunities in the smaller towns are also drying up.

"Cannibalisation will be the name of the game from now on," says Ndlovu. "That means retailers will find it increasingly difficult to grow turnover by opening more stores in the same area."

He argues the SA retail market simply doesn't have the money to support more growth of shopping centre like those in London, New York, Singapore and Hong Kong. These cities can afford more shopping centre per capita because of their higher levels of income and large international tourism receipts.

Property research group Urban Studies MD Dirk Prinsloo has a similar view. He says while the recent addition of new retail space can be justified by SA's unusually high economic growth rate in the mid-2000s the industry will have to adopt a far more cautious approach if it wants to remain profitable. Prinsloo says developers need to return to basics such as the "follow-the-roofs" mantra.

"In the recent past, too many developers have built new malls based on potential residential growth in that area instead of waiting for the curtains to wave in the wind."

Others argue that mall owners will have to differentiate their tenant mix if they want to continue spinning decent profits.

"If we want to keep SA malls relevant, we need to start introducing a more diverse shopping experience ," says Phillip Barttram, head of research at Old Mutual Property. The latter owns some of the biggest malls SA, including Gateway Theatre of Shopping in Umhlanga, Menlyn Park in Pretoria and Cavendish Square i Cape Town.

Barttram believes SA shopping centre owners need to attract and keep a wider variety of line shops to complement the national retail chains. "We have to better understand how the smaller guys operate, not o to help them use space effectively but also to convert more feet into sales."

Meanwhile, it appears that the recovery in consumer spending continues. Figures from Broll show that reta sales were up an average 9.92% in the first quarter of 2011 year on year. That applies to a sample of 25 Broll-managed malls exceeding 20000m²

But not all merchandise categories are faring equally well. Broll's GM for group research and marketing, Sanett Uys, says the strongest performer in the first quarter was electronics (including cellphone stores), with a staggering 54% growth in sales. That was followed by music stores (21%), bottle stores (15%), me fashion (9%) and women's fashion (7%).

Interestingly, the worst-performing merchandise category in Broll-managed shopping centres in the first quarter was sweets, with sales down a hefty 19%.

Source: Financial Mail