CHAPTER FOUR: RETAIL SUPPLY TRENDS

4.1 INTRODUCTION

As evident from the previous chapters, second economy areas have experienced increased public and private sector investment over the past 10 to 15 years. The dominant type of private sector investment is in retail centre development. This chapter aims to provide sufficient background to the development trends pertaining to retail supply within the rural and township areas of South Africa – on a national as well as on a provincial basis.

The chapter is structured in terms of the following headings:

- ✓ Defining Retail
- ✓ Role of Retail Centres in Nodal Development
- ✓ National and Provincial Development Trends in Second Economy Retail Centres
- ✓ General Supply Trends and Centre Performance
- ✓ Initial Retail Centre Development Indicators and Risk Profile

4.2 DEFINING RETAIL

Retailing involves the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses[48].

In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power[49].

In short retailing is also defined as:

"The sale of goods or commodities in small quantities directly to consumers"- www.freedictionary.com

"Retail is the sale of goods to end users, not for resale, but for use and consumption by the purchaser. The retail transaction is at the end of the supply chain. Manufacturers sell large quantities of products to retailers, and retailers sell small quantities of those products to consumers" – http://retailingindustry.about.com

"Market for private customers and clients in small and medium enterprises business" – www.group.abnamro.com

Retail sales refer to the amount of money spent on a variety of consumer goods. This includes, for example, non-perishable products, footwear, jewellery and hardware. Retail sales serve as an indication of the expenditure in certain categories. Retail sales figures provide an indication of current demand for specific categories of consumer goods, which can be divided into three broad groupings.

[48] Source: en.wikipedia.org
[49] Source: en.wikipedia.org

1. Durable goods	Durable goods include goods such as furniture, household appliances and personal transport equipment.
2. Semi-durable goods	Semi-durable goods include products such as footwear, clothing and household textiles.
3. Non-durable goods	Non-durable goods include food, beverages, and tobacco, and household consumer goods, medical and pharmaceutical products.

The demand and supply side of the retail market can be defined in terms of the following:

Defining Demand

Retail demand depends on a variety of customer-related aspects. It can be conceptualised as follows:

$$\mathbf{D_{ret} = f\ \{P_o;\ P_{\%};\ Q;\ Y;\ R_e;\ C_p;\ S_f\}}$$

Where:

P_o	=	Population size
$P_{\%}$	=	Population growth
Q	=	Existing quality of retail space
Y	=	Household income
R_e	=	Household expenditure patterns
C_p	=	Consumer preferences
S_f	=	Seasonality factors

Defining Supply

The supply of retail markets entails the following:

$$\mathbf{S_{ret} = f\ \{D_{ret};\ GLA_{ret};\ R;\ S_c;\ C_c;\ L_u;\ I_a;\ S_p;\ V_{ret}\ \}}$$

Where:

D_{ret}	=	Demand
GLA_{ret}	=	Current rentable/useable area
R	=	Rent/m^2
S_c	=	Competition
C_c	=	Construction cost
L_u	=	Surrounding land uses
I_a	=	Infrastructure availability
S_p	=	Speculative climate
V_{ret}	=	Vacancy

Over time the South African Council of Shopping Centres has developed a shopping centre hierarchy – detailing the different types of retail centres and the elements that define them. These range from small free standing centres to super regional centres, value centres, speciality centres, hyper centres and lifestyle centres – refer to Table 4.1.

To a great extent this hierarchy has developed within the urban areas of South Africa.These areas are characterised by a generally mature consumer market able to absorb and carry a large amount of retail floor space, which can be structured in terms of more than one level of the general retail hierarchy.

Table 4.1: SACSC Retail Centre Classification

Type of Centre	Size of centre (m²)	Trade area	Access Requirements	No. of households	Socio-economic groups	Average Radius (km)	Median Travel time (minutes)	Main tenants
Small free-standing centre	500 – 1 000 Less than 10 stores	Serves part of a suburbs	Suburban street	<2 000	Mainly middle, middle low and low LSM 4-7	1	<2	✓ Café/Superette ✓ Few convenience stores ✓ Less than 10 stores
Local convenience centre	±1 000 - ±5 000 5-25 stores	One suburb or parts of suburb(s)	Minor collector road	700 - 3 600	All LSM 4-10	1,5	3	✓ Supermarket ✓ Few convenience stores ✓ 5 – 25 stores
Neighbourhood centre	±5 000-±12 000 25-50 stores	Strategically located for a group of suburbs	Major collector roads	2 400 –5 700	All LSM 4-10	2,0	4-9	✓ Supermarket ✓ Convenience ✓ Some small specialised stores
Community Centre	±12 000-±25 000 50-100 stores	Strategically located to serve a suburban community.	Major arterial road	8 500 - 17 800	All LSM 4-10	3,0	6-14	✓ Large supermarket ✓ Convenience ✓ Small national clothing ✓ Restaurants & takeaways ✓ Services
Small regional	±25 000-±50 000 75-150 stores	Specific sub-region of city (can be large self contained community (i.e. Chatsworth)	Major suburban arterial road linking to a provincial highway	17 800-35 700	All LSM 4-10	5,0	10-16	✓ Large supermarket ✓ 1 or 2 large clothing anchors ✓ Strong national tenant comparison goods component ✓ Boutiques ✓ Restaurants ✓ Entertainment ✓ Services
Regional centre	±50 000-±100 000 150-250 stores	Large region of city/or whole city	Major arterial road usually a Provincial main road linking to a National road.	28 600 – 57 150	All LSM 4-10	8,0	14-20	✓ Large supermarket/hyper ✓ 2 or more large clothing ✓ Small clothing and boutiques ✓ Entertainment restaurants ✓ Services ✓ Convenience
Super regional centre	>100 000 More than 250 stores	Large region in city and surrounding areas/Tourists	Major arterial road usually a Provincial main road, linking to a National road.	57 150- 114 300	Above average LSM 5-10	10+	16-28	✓ As at regional but more emphasis on entertainment and variety
Specialist/ entertainment Theme, centre/Life Style centre	Vary from 10 000 to 30 000	Depend on type of store or centre - mostly on regional level	Major urban arterial main road.	5 700 – 85 700	Mainly above average LSM 7-10	5-10	10-30	✓ Specialist traders/ entertainment and/or theme centre
Value Centre	10 000 – 45 000	Next to regional centre or on main road/highway	Major urban arterial main road.	4 800 - 23 800	Middle to above average LSM 6-10	3-6	10-15	✓ Emphasis on big box retailers ✓ Specialist retailers ✓ Home improvement ✓ Limited groceries ✓ Fast food

Type of Centre	Size of centre (m²)	Trade area	Access Requirements	No. of households	Socio-economic groups	Average Radius (km)	Median Travel time (minutes)	Main tenants
								✓ Banks
Hyper centres	15 000 – 35 000	Strong correlation with a regional centre	Major urban arterial main road.	21 400 - 50 000	Middle to above average LSM 5-10	6-8	10-15	✓ One hyper store (70% of area) ✓ Convenience line stores ✓ Services
Lifestyle Centre	15 000 – 50 000 (can be smaller or larger)	Upscale Catchment areas	Major urban arterial main road.	10 000 – 60 000	Mainly LSM 9-10	3-8	6 - 20	✓ Upscale supermarket ✓ Book stores ✓ Dining ✓ Entertainment ✓ Speciality retail (house/home/garden) ✓ Fresh produce stores

Source: Demacon Ex. SACSC, 2010

Examples of Centres:

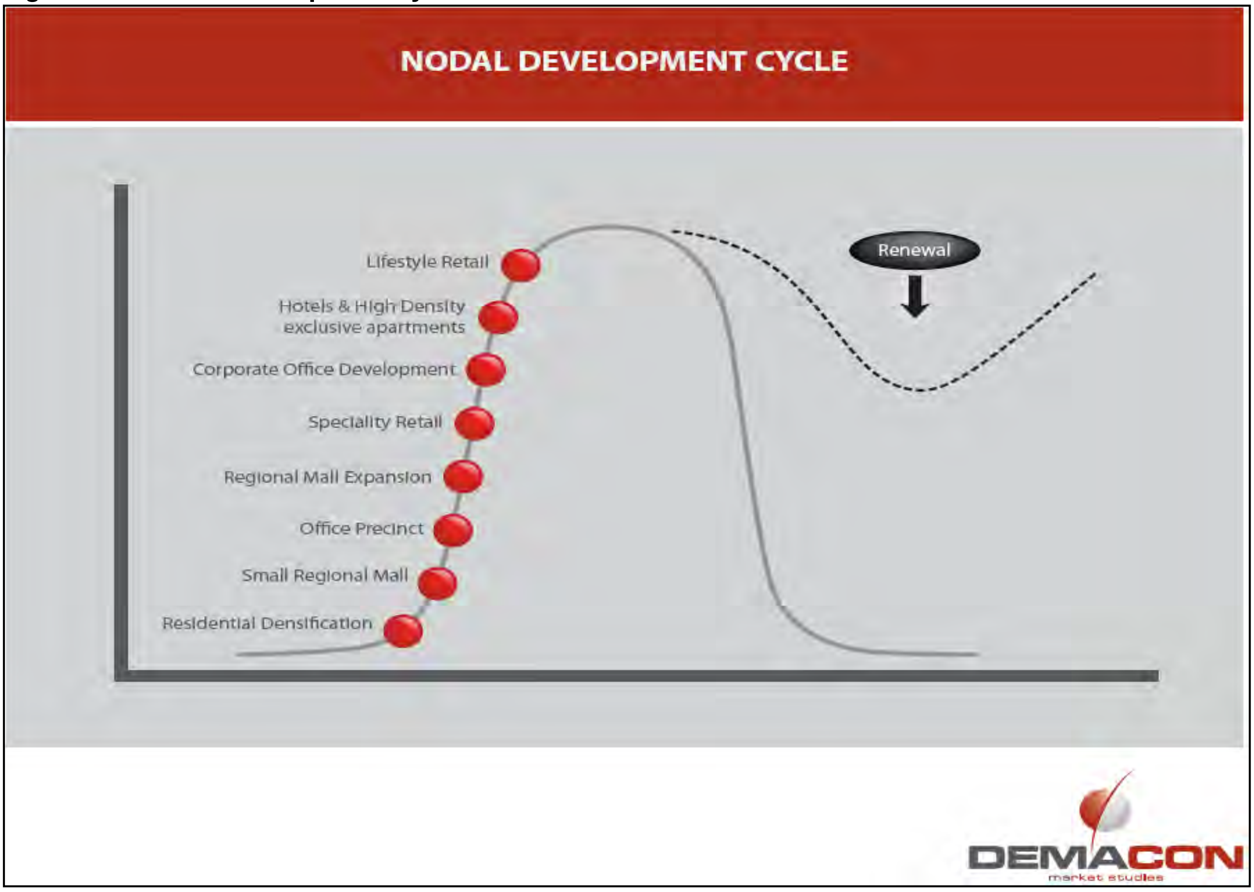
- ✓ Super Regional: Eastgate (Johannesburg), Sandton City (Johannesburg), Menlyn (Pretoria), Gateway (Durban Metro), Canal Walk (CT)
- ✓ Regional: Westgate, Fourways Mall, Cresta (Johannesburg), Brooklyn Mall (Pretoria), Pavilion (Durban), Sanlam Centre in Parrow, Tyger Valley, Kenilworth (Cape metro); Greenacres (Port Elizabeth); Mimosa Mall (Bloemfontein); Vincent Park Shopping Centre (East London).
- ✓ Community**:** Sunnypark (Pretoria); Musgrave Centre (Durban); Middestad Mall in Bellville, Meadowridge, Goodwood Mall, Constantia Village (Cape metro); Constantia Centre (Port Elizabeth); Brandwag Centre (Bloemfontein); Beacon Bay Retail Park (East London).

Debate exists about the applicability of this retail hierarchy in second economy areas where the market is largely immature. There are, however, an increasing number of examples of successfully competing developments in second economy markets characterised by higher consumer demand thresholds, for instance: Soshanguve, Soweto, Orange Farm and Sebokeng, where multiple centres have emerged in recent years and coexist in a synergistic manner. These examples, however, mainly represent urban townships where markets are maturing more rapidly due to the growing black middle class and the increased safety net of social grants. Despite this, limited speciality centres have developed in these areas. Furthermore, a number of smaller centres in second economy areas fulfil the role and function of regional centres. Such examples are not defined by the parameters specified in the table above. This will be investigated in more depth in the remainder of the report.

4.3 ROLE OF RETAIL CENTRES IN NODAL DEVELOPMENT

Figure 4.1 illustrates the general process of nodal development in urban areas – residential development and densification represents the first phase of nodal development, followed by the development of a retail centre, supported by office precinct and speciality retail. This is furthermore supported by the development of office parks, hotels and high density exclusive apartments and lifestyle retail. Evidently, a retail centre represents the first non-residential property type to be included as part of a node – emphasising the importance of this type of investment within a specific area.

Figure 4.1: Nodal development cycle



The nodal cycle in second economy areas correlates with this cycle – although the uses are more basic and less specialised due to the immaturity of the markets and higher risk profiles of the more specialised uses. Residential densification takes place, followed by retail investments, office developments and higher density residential uses. As the node progresses towards the state of maturity more specialised uses can be developed.

The following paragraphs are employed to provide guidelines for the development of nodes within second economy areas.

4.3.1 NODAL DEVELOPMENT WITHIN SECOND ECONOMY AREAS

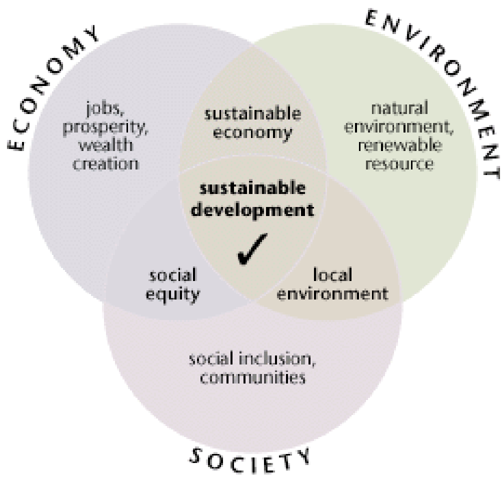
Mixed-use nodes fulfil an important role in the development of second economy landscapes due to the fact that they **offer a concentrated and diverse range** of goods and services, represent enormous concentrations of both **private and public sector investment,** establish the **image of the area,** form important **sources of revenue** for local governments, generate significant **employment opportunities and** host enormous **economic diversity.**

By means of developing such nodes in second economy areas, the urban system can be **restructured** in such a way that **integration** takes place, in a **spatial** as well as an **economic** context.

Nodal development in these areas has experienced changes over the past years, moving from a **social** development approach to an **economic** approach. The development process has become an integrated process between the private sector, government and non-profit sector.

The economic logic of a mixed-use node can be expressed in terms of the urban interaction model, assuming that the **market share** of a node is inversely proportional to the **distance** between the **market** and the **node** and proportional to the **attractiveness** of the location. Mixed-use nodes in these areas are developed based on **desire lines**, representing a naturally expressive pattern of consumer movement preferences – with emphasis on pedestrian and public transport movements.

A mixed-use node within a second economy area represents a **powerful vehicle** for serving the community, inducing **investment** and **capital injections** into the area and contributing to the economic **upliftment** of the people that will ultimately result in the **improved quality of living**.



The goal is to develop an **activity node**, aimed at improving the **social and economic conditions** of the community; representing a viable entity consisting of a combination of **economic and social activities** that are **integrated, vibrant and pedestrian friendly**.

A node in these areas generally consists of the following main structuring elements: **public spaces, connections, public sector facilities** and **institutions and private enterprises,** notwithstanding the context in which it is developed.

These building blocks can be translated into, inter alia, various urban property markets: residential market, retail market, office market, and light industrial market and community facilities.

In terms of the configuration of these nodes – specific anchors are developed to attract a daily flow of consumers. These anchors can range from a **retail centre**, to an inter-modal facility, to a specific public or community facility such as a municipal office (including a municipal service pay point/pension pay point), community centre etc.

These **anchor facilities** should be supported by a range of supporting commercial activities, integrated with residential uses and other community facilities such as a police station, clinic etc. The development of the mixed-use node should provide for components that will contribute towards the attraction of the required thresholds to support the included commercial activities.

These nodes should be developed according to **human scale** - prioritising the needs of pedestrians, ensuring legibility and permeability within the urban structure.

For these nodes to be sustainable they should be **entrepreneurially focused and market driven**. The development approach should be well **co-ordinated** and carefully **phased** and requires well thought through planning to ensure that key facilities are implemented in a co-ordinated way, linked to housing development in order to induce the required thresholds for private sector investment.

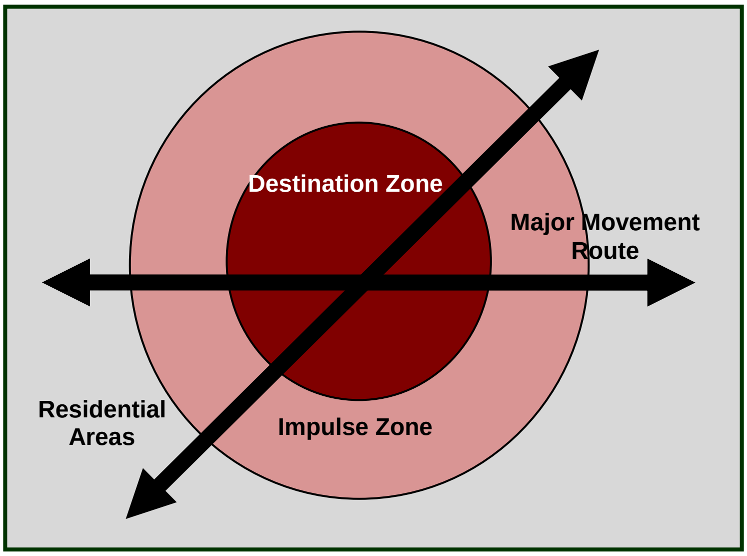
It should, however, be noted that the qualities of mixed use nodes within second economy areas take **time to evolve.** A critical mass of customers is fundamental to the success of any retail based development, therefore there is a need for **co-ordinated and carefully phased** approaches in order to ensure that **co-ordinated public and private investment** can result in the achievement of larger customer thresholds and hence, more significant levels of private investment.

It is important that the development should be integrated with the surrounding urban fabric and local economic dynamics.

4.3.2 CONFIGURATION OF SECOND ECONOMY NODES

Nodes in general develop along important movement axes – mostly at intersections of some kind. In general nodes develop around the intersections in all the quadrants. These nodes generally consist of destination and impulse zones.

Destination activities *- Destination activities represent those **anchor** activities that are **deliberately** visited on a **frequent** basis (more than once a week), and that are required to fulfil the **demands** of **every-day life**, ranging from buying groceries to paying electricity bills. These uses and facilities should be located at the point of highest accessibility.*



As distance increases from the core of the node, the level of optimal location diminishes. This provides the ideal location for impulse activities that are less sensitive to distance deterrence function.

Impulse activities *- Impulse activities represent **speciality** services that are visited on an **infrequent** basis, based on **need** and **desirability**. Impulse activities rely on high consumer volumes and two way traffic to be sustainable. Therefore these facilities require high levels of exposure and accessibility.*

The configuration of each node will depend on the settlement's position within the development hierarchy. The more dominant nodes, reflecting higher population thresholds, could include more commercial uses and facilities than the other less prominent settlement nodes. However, the smaller settlement nodes in general could be characterised by higher representations of public facilities.

Overall, retail centres represent <u>critical building blocks</u> of nodal development within second economy areas – serving as a <u>catalytic anchor</u>. They should, however, be developed at the right location with sufficient space to develop into mature mixed use nodes over time. Provision should be made for these nodes within township planning layouts in order to secure sufficient land.

Now that the importance of retail centres in nodal development has been determined, the focus is shifted towards the general development trends pertaining to second economy retail centres.

4.4 NATIONAL AND PROVINCIAL DEVELOPMENT TRENDS IN SECOND ECONOMY RETAIL CENTRES – TOWNSHIP AND RURAL CENTRES

Subsequent paragraphs provide an overview of national and provincial development trends pertaining to second economy retail centres. These trends are first shown on a national scale, followed by a provincial analysis. This data has been obtained via a range of SA Shopping Centre Directories and Mall guides.

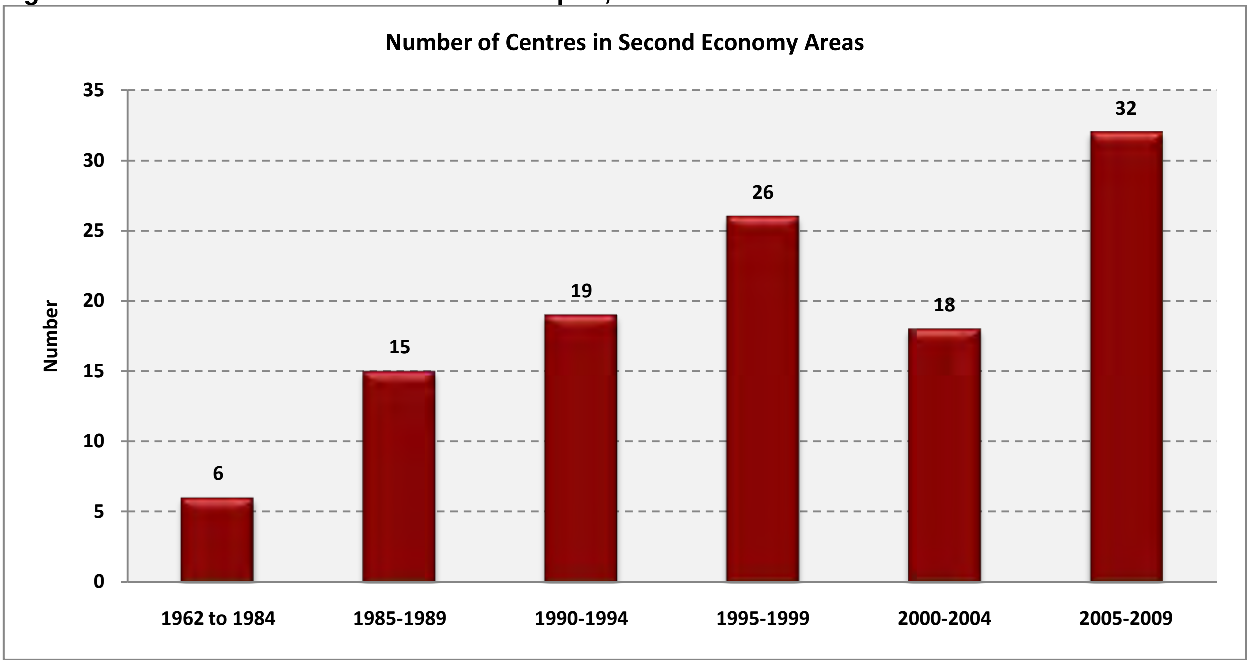
4.4.1 NATIONAL DEVELOPMENT TRENDS

- ✓ Nationally, **160 retail centres** have been developed in second economy areas – rural and township areas – constituting approximately **2.0 million m^2 of retail floor space**.
- ✓ Development dates could only be obtained for 117 of these centres – which constitute approximately 1.6 million m^2 of retail floor space.
- ✓ Only the dated developments were utilised for the discussion on national development trends because it is addressed in terms of time line trends.
- ✓ These centres (43 centres constituting approximately 350 000m^2 of retail GLA) are, however, included under the provincial development trends.
- ✓ Some of the centres included serve a dualistic market, where the secondary market is a great deal larger than the primary market, and originates from a rural spatial base.

Subsequent figures illustrate the development trends of retail centres in second economy areas between 1962 and 2009.

Number of Centres Developed in Second Economy Areas between 1962 and 2009

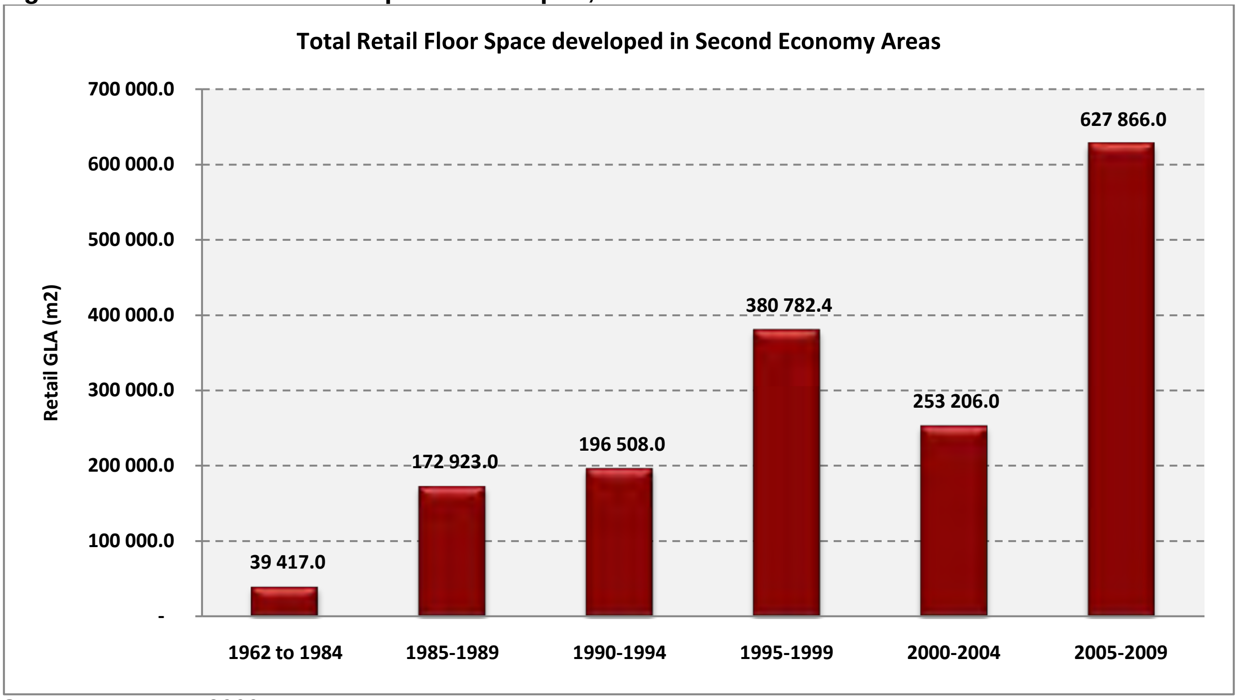
Figure 4.2: Number of Retail Centres Developed, 1962 to 2009



Source: Demacon, 2009

Total Retail Floor Space Developed between 1962 and 2009 in Second Economy Areas

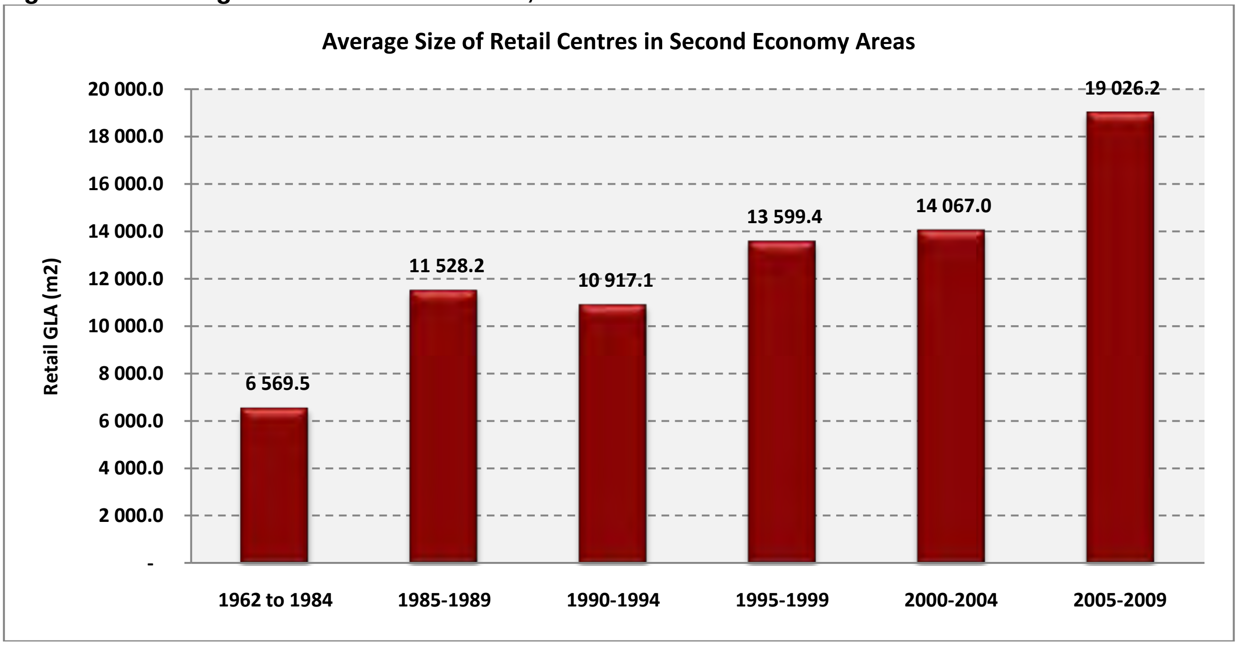
Figure 4.3: Total Retail Floor Space Developed, 1962 to 2009



Source: Demacon, 2009

Average Size of Retail Centres in Second Economy Areas

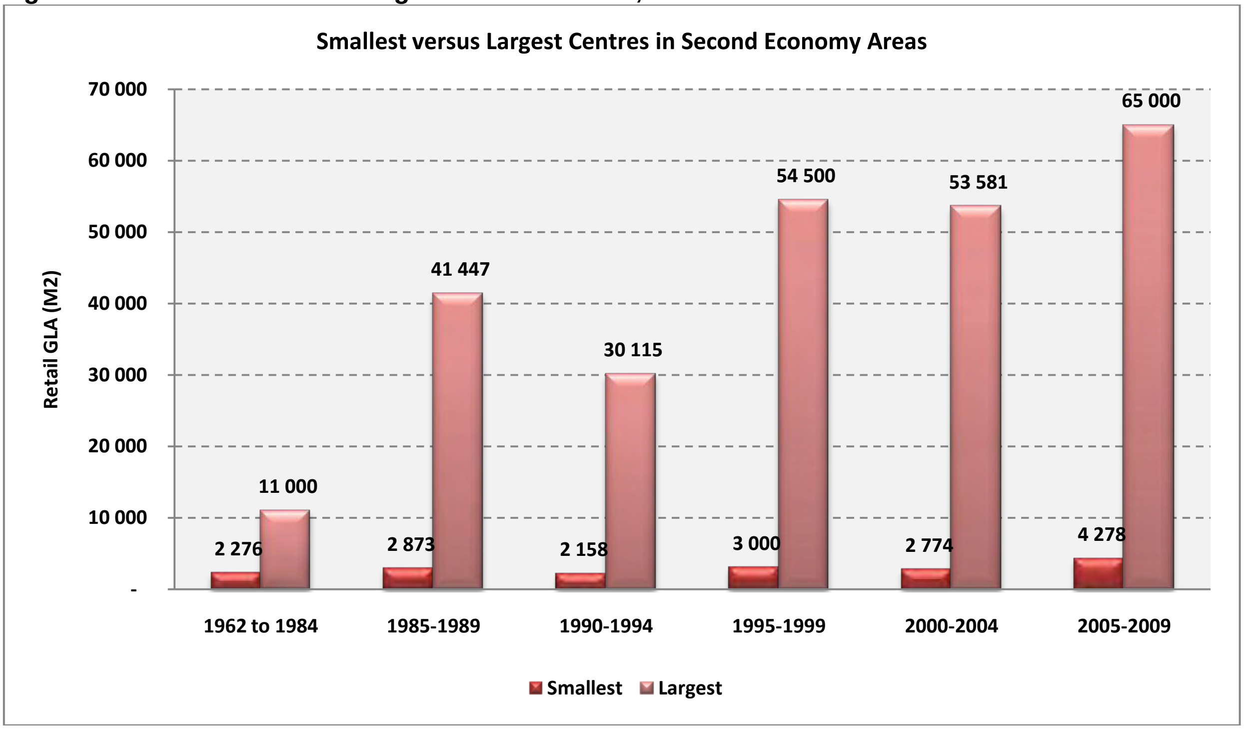
Figure 4.4: Average Size of Retail Centres, 1962 to 2009



Source: Demacon, 2009

Smallest versus Largest Retail Centres in Second Economy Areas

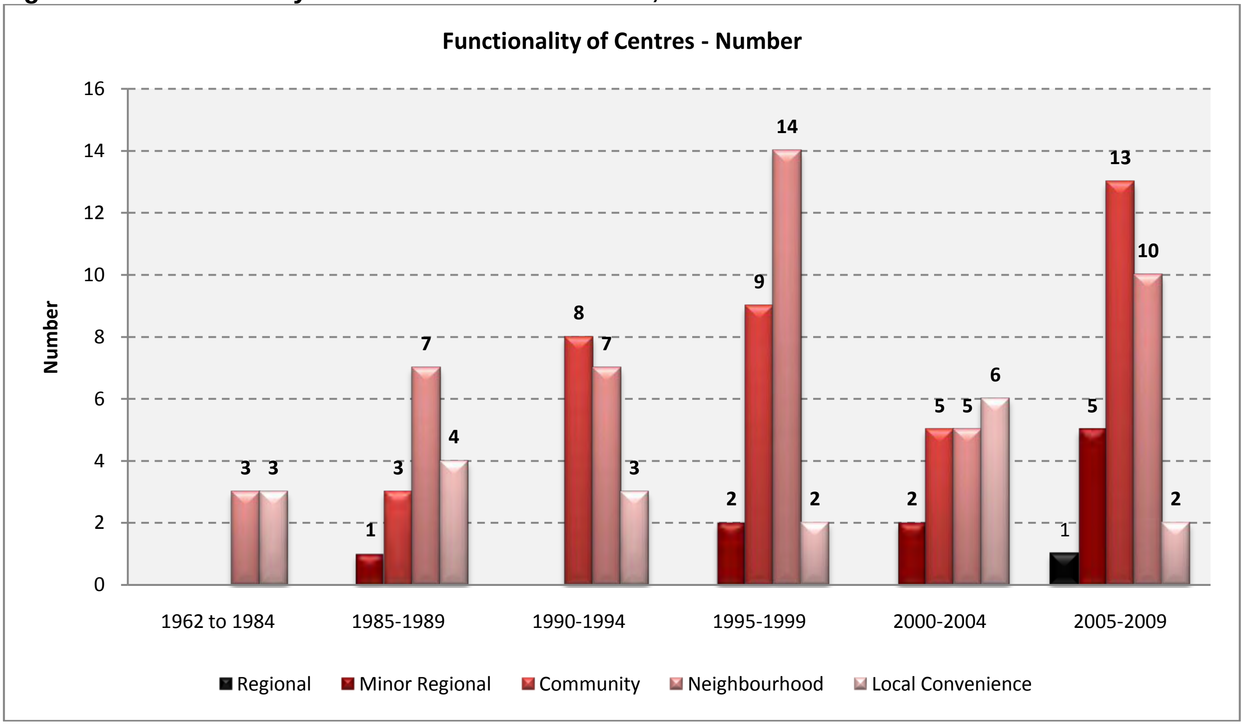
Figure 4.5: Smallest versus Largest Retail Centres, 1962 to 2009



Source: Demacon, 2009

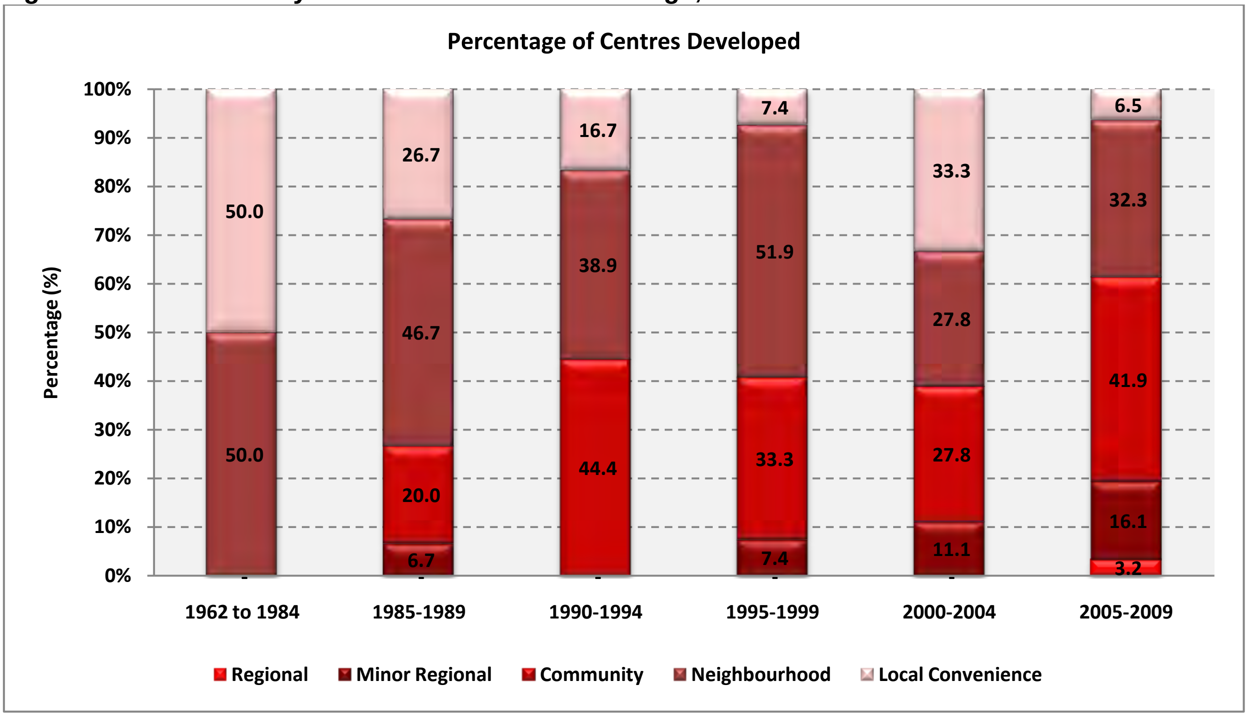
Functionality of Retail Centres in Second Economy Areas

Figure 4.6: Functionality of Retail Centres - Number, 1962 to 2009



Source: Demacon, 2009

Figure 4.7: Functionality of Retail Centres - Percentage, 1962 to 2009



Source: Demacon, 2009

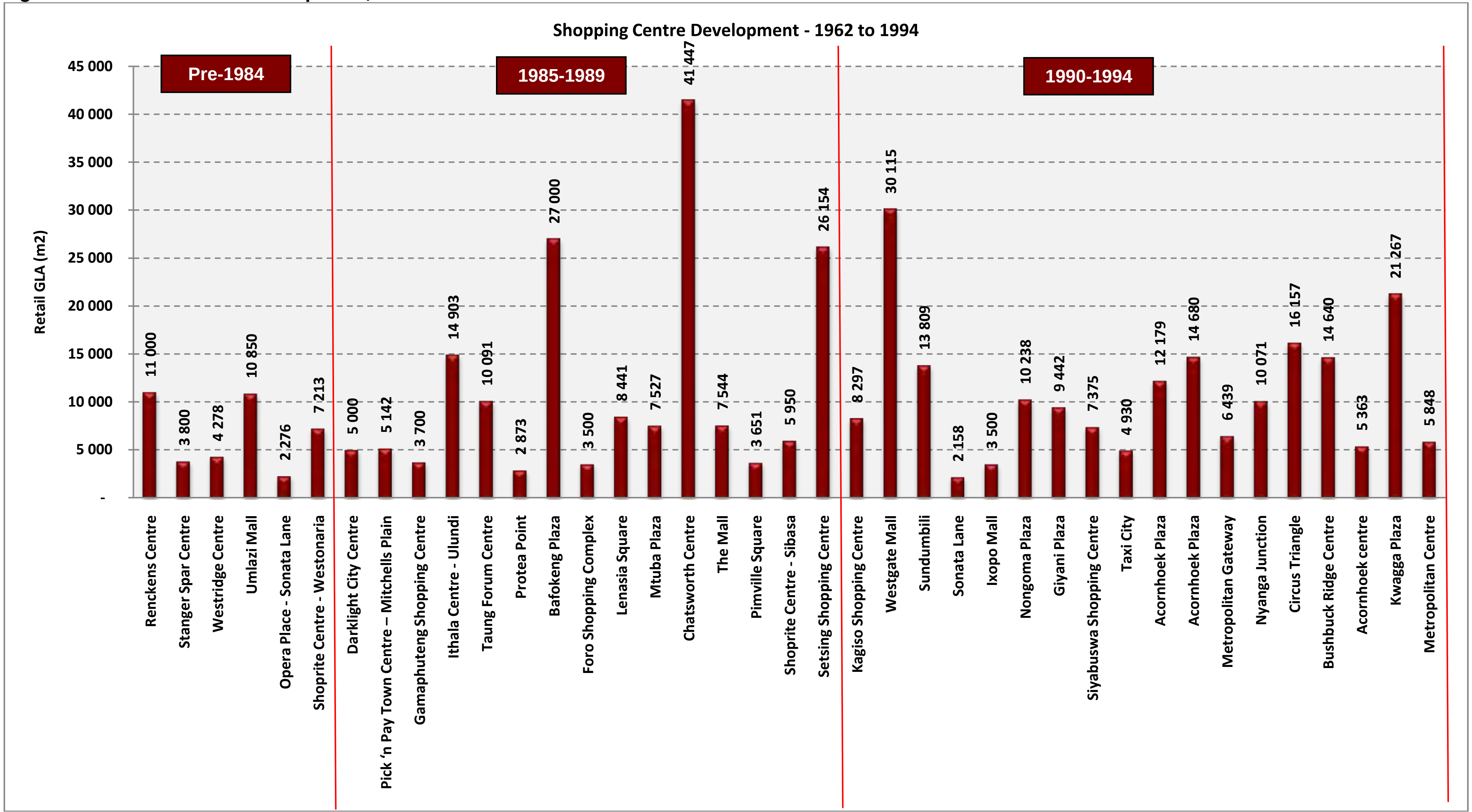
Average Number of Shops in Retail Centres in Second Economy Areas

Figure 4.8: Average Number of Shops in Retail Centres in Second Economy Areas, 1962 to 2009

Source: Demacon, 2009

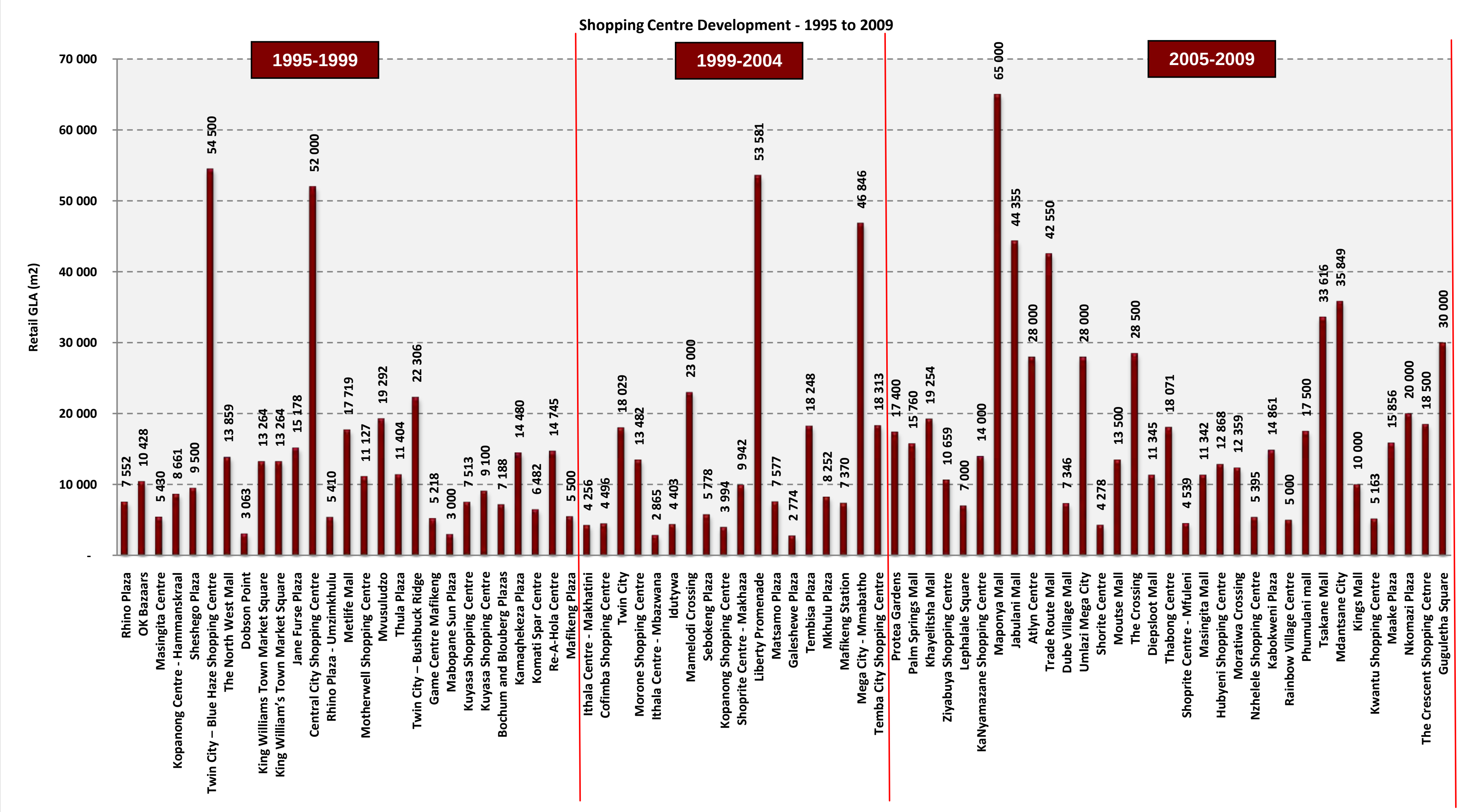
Centre Development in Second Economy Areas between 1962 and 2009

Figure 4.9: Retail Centre Development, 1962 to 1994



Source: Demacon, 2009

Figure 4.10: Retail Centre Development, 1995 to 2009



Source: Demacon, 2009

Findings: (Figures 4.2 to 4.10)

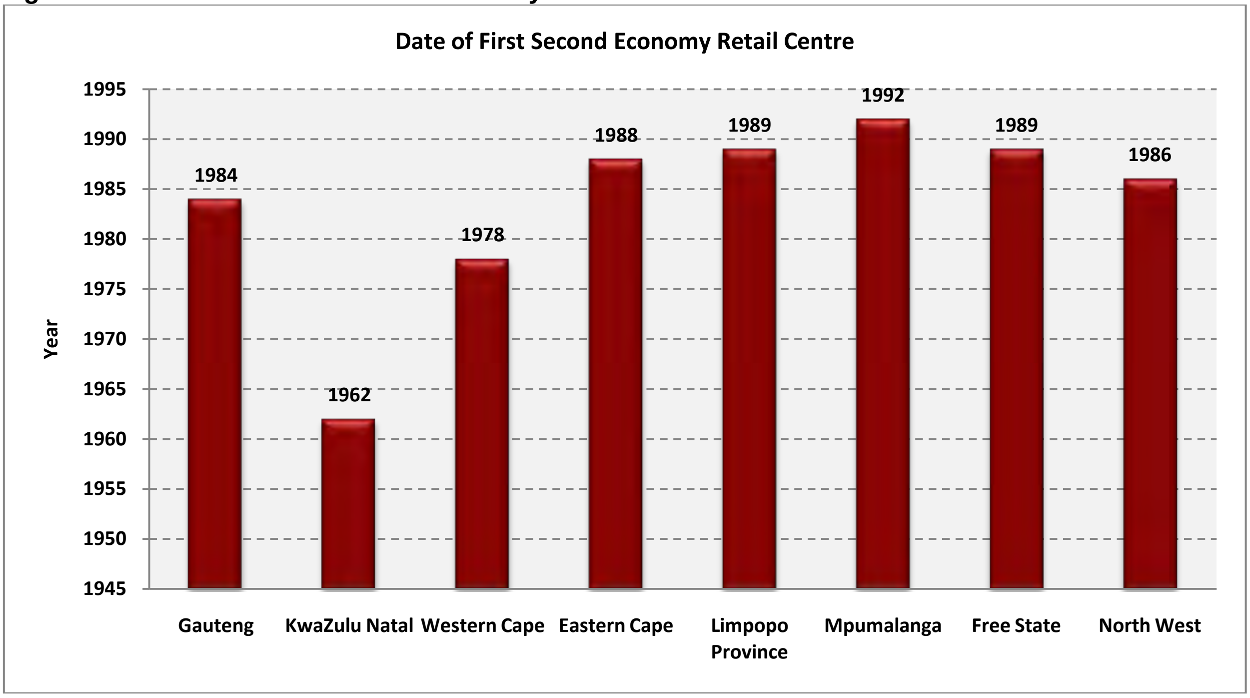
- ✓ Retail centre development in second economy areas increased nationally between 1962 and 2009 – particularly in the post 1990 period.
- ✓ The majority (64.9%) of these centres were developed post 1994 and 35.1% pre-1994.
- ✓ In terms of retail floor space developed, it is evident that the largest bulk has been developed post 1994 (75.5% of total retail floor space developed), especially in the periods 1995 to 1999 (22.8%) and 2005 to 2009 (37.6%).
- ✓ The average size of retail centres increased from a mere 6 500m^2 retail GLA to nearly 20 000m^2 retail GLA over this time period.
- ✓ The smallest retail centres varied between approximately 2 200m^2 retail GLA and approximately 4 300m^2 retail GLA.
- ✓ The largest retail centres increased from a mere 11 000m^2 retail GLA to an impressive 65 000m^2 retail GLA.
- ✓ Pre-1990, mostly local convenience and neighbourhood centres were developed. Post 1990 a stronger trend of building community centres developed and post 1994 regional centres became part of the mix.
- ✓ Average number of shops increased to the 50s during the pre-1994 period, from which it declined to the 40s between 1995 and 1999, escalating to nearly 60 between 2005 and 2009.
- ✓ The main centres developed between 1962 and 2009 include:
    - Bafokeng Plaza – 27 000m^2
    - Chatsworth Centre – 41 447m^2
    - Setsing Centre – 26 154m^2
    - Westgate Mall – 30 115m^2
    - Twin City – 54 500m^2
    - Central City – 52 000m^2
    - Liberty Promenade – 53 581m^2
    - Mega City – 46 846m^2
    - Jabulani Mall – 44 355m^2
    - Maponya Mall – 65 000m^2
    - Trade Route Mall – 42 550m^2
    - Tsakane Mall – 33 616m^2
    - Mdantsane City – 35 849m^2.

4.4.2 PROVINCIAL DEVELOPMENT TRENDS

Subsequent figures illustrate the development trends pertaining to retail centre development in second economy areas on a provincial basis.

Date of first Second Economy Retail Centre

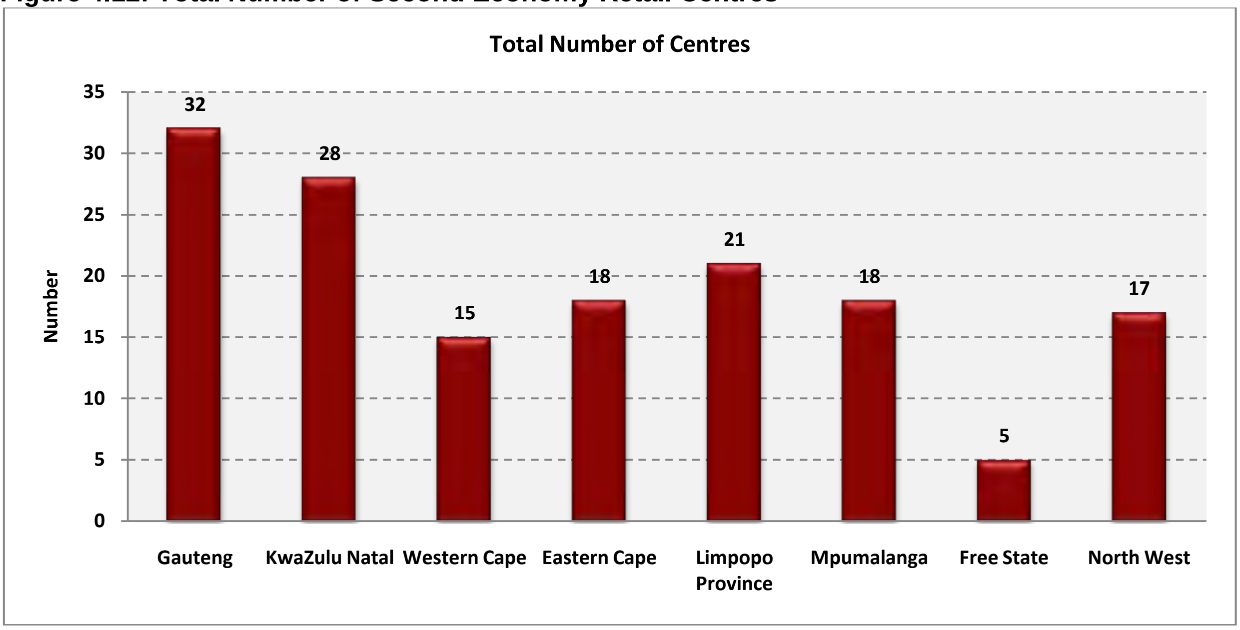
Figure 4.11: Date of First Second Economy Retail Centre



Source: Demacon, 2009
Note: This is based on centres where development dates are provided.
No retail centres are identified within the Northern Cape Province.

Total number of Second Economy Retail Centres

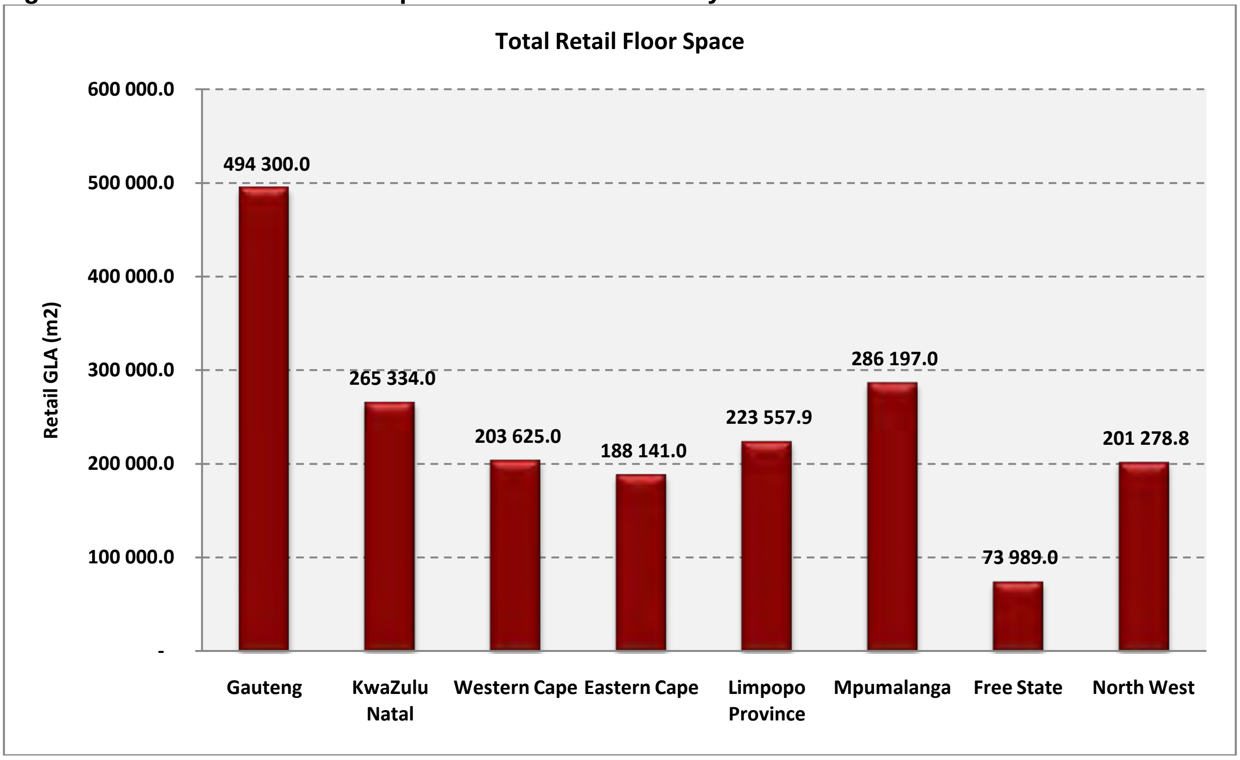
Figure 4.12: Total Number of Second Economy Retail Centres



Source: Demacon, 2009

Total Retail Floor Space contributed by Second Economy Retail Centres

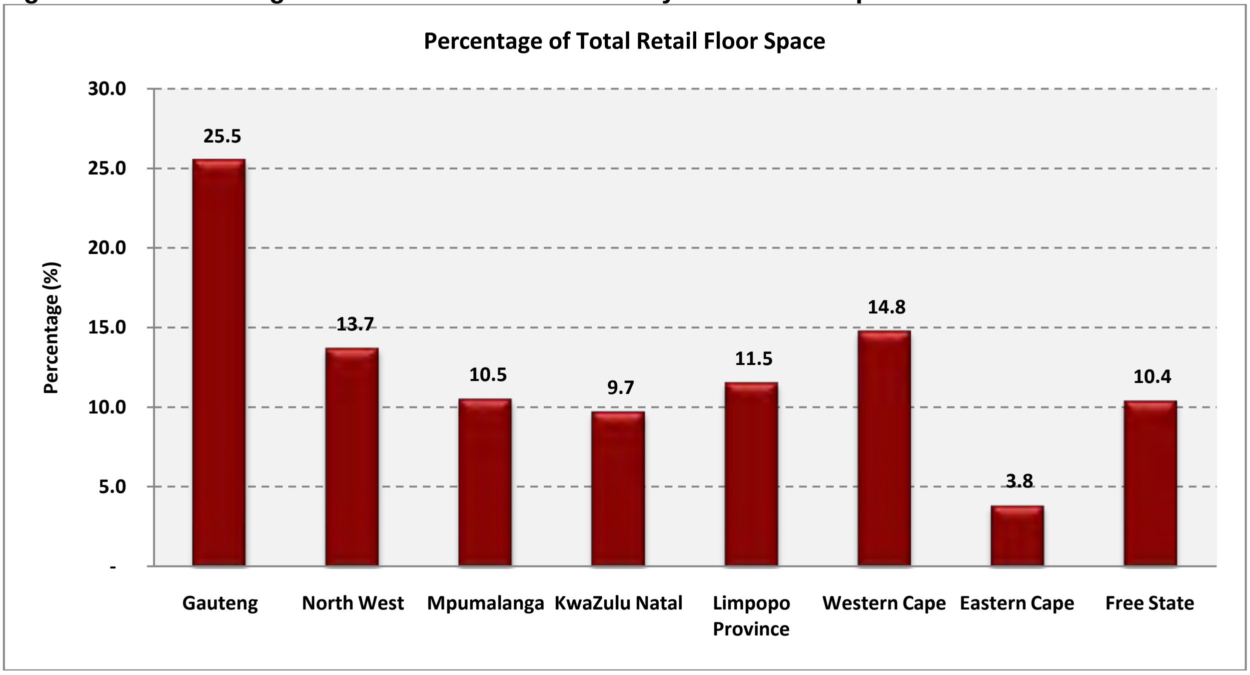
Figure 4.13: Total Retail Floor Space in Second Economy Areas



Source: Demacon, 2009

Provincial Contribution of National Second Economy Retail Floor Space

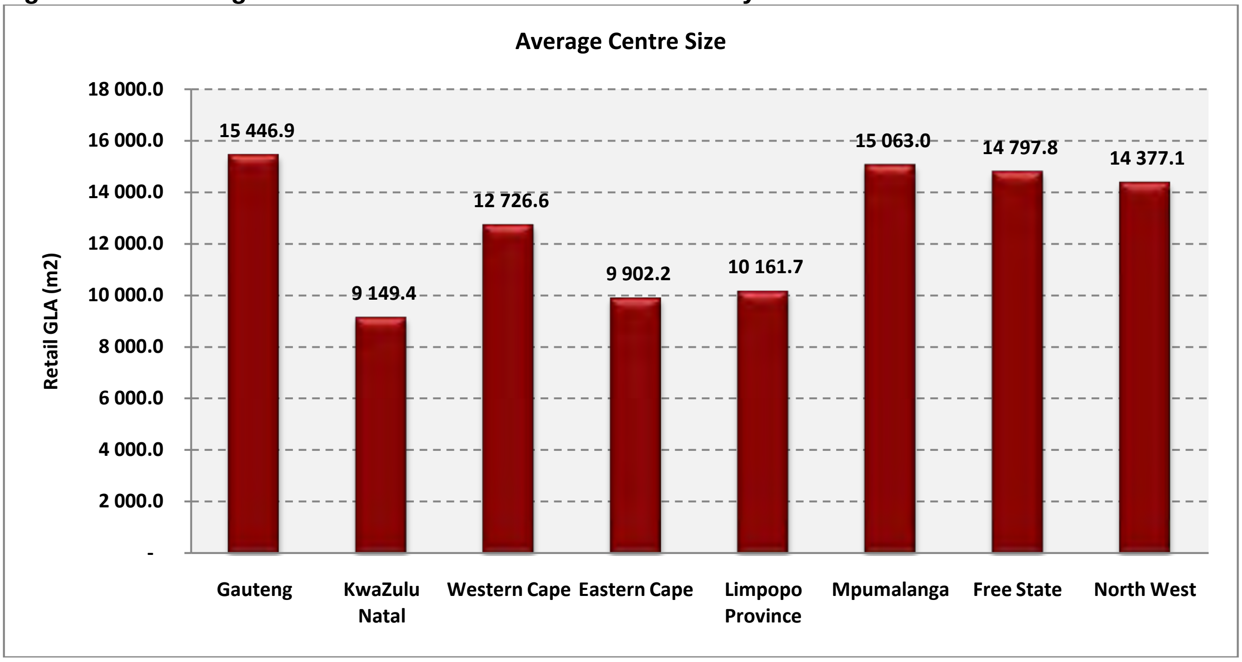
Figure 4.14: Percentage of National Second Economy Retail Floor Space



Source: Demacon, 2009

Average Second Economy Retail Centre Size

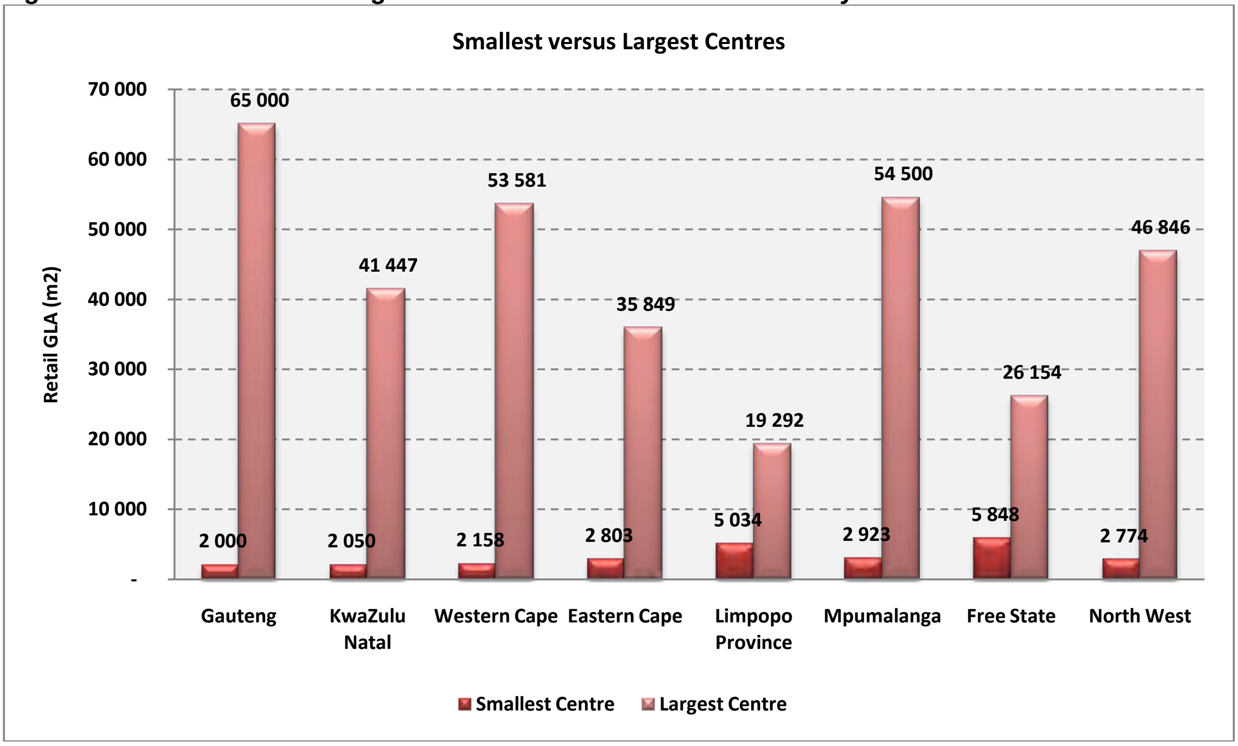
Figure 4.15: Average Retail Centre Size in Second Economy Areas



Source: Demacon, 2009

Minimum and Maximum Sizes of Second Economy Retail Centre Size

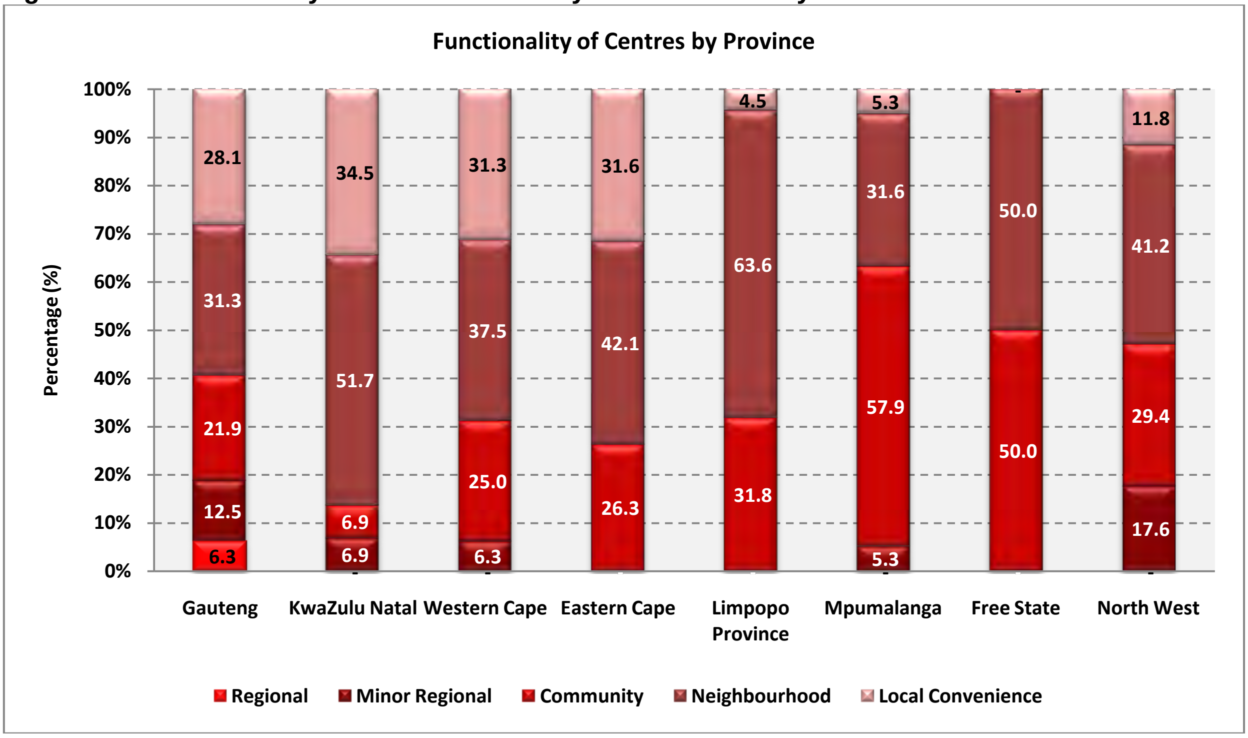
Figure 4.16: Smallest and Largest Centre Sizes in Second Economy Areas



Source: Demacon, 2009

Functionality of Second Economy Retail Centres – Percentage Distribution

Figure 4.17: Functionality of Second Economy Retail Centres by Province



Source: Demacon, 2009

Dominant Anchor Tenants by Province

Table 4.2: Dominant Anchor Tenants by Province

	Gauteng	KZN	Western Cape	Eastern Cape	Limpopo	Mpumalanga	Free State	North West
1	**Shoprite** 15.4%	Ithala Bank 12.2%	**Shoprite** 21.9%	Pep 14.1%	**Spar** 12.9%	Score 11.5%	Pep 9.4%	**Shoprite** 18.4%
2	Score 10.3%	Pep 11.3%	Jet 9.4%	**Shoprite** 8.5%	Pep 9.7%	Pep 8.2%	**Shoprite** 9.4%	Score 13.2%
3	Pep 6.4%	**Shoprite** 6.1%	Pep 9.4%	Boxer Cash & Carry 5.6%	Jet 8.1%	**Shoprite** 8.2%		**Spar** 10.5%
4	**Spar** 6.4%	**Spar** 6.1%	Pick 'n Pay 9.4%	**Spar** 5.6%	**Shoprite** 8.1%	**Spar** 8.2%		Edgars 7.9%
5	Woolworths 5.1%	Rhino Cash 'n Carry 5.2%	Ackermans **Spar** Woolworths 6.3%	Diskom Ellerines Jet Pick 'n Pay Std Bank Woolworths 4.2%	FNB Score 6.5%	Edgars 6.6%		Jet 7.9%

Source: Demacon, 2009

Findings: (Figures 4.11 to 4.17 and Table 4.2)

- ✓ It is evident that the first second economy retail centres were developed in KwaZulu Natal (1962), followed by the Western Cape (1978) and Gauteng (1984). Mpumalanga reflected the most recent retail centre development (1992).
- ✓ Gauteng boasts with highest number of retail centres in second economy areas – 32, followed closely by KwaZulu Natal with 28 centres. These provinces are followed by Limpopo (21), Eastern Cape (18), Mpumalanga (18), North West (17) and Western Cape (15). The Free State is characterised by five centres and no retail developments are present in the Northern Cape second economy areas.

- ✓ In terms of total second economy retail floor space it is evident that Gauteng ranks first with 494 300m^2 retail GLA, followed by Mpumalanga with 286 197m^2 retail GLA and KZN with 265 334m^2 retail GLA, Limpopo with 223 557.9m^2 retail GLA, Western Cape with 203 625m^2 retail GLA, North West with 201 278.8m^2 retail GLA and the Eastern Cape with 188141m^2 retail GLA. The Free State is characterised by a fairly low figure of 73 989m^2 or retail GLA in its second economy areas.
- ✓ Gauteng accounts for 25.5% of the total national second economy retail floor space, Mpumalanga accounts for 14.3%, North West accounts for 13.7%, KZN accounts for 13.2% and Limpopo for 11.1%, Western Cape for 10.1%, the Eastern Cape for 9.4% and the Free State for a mere 3.7%.
- ✓ In terms of the average centre size, s Gauteng boasts the largest average size of 15 446.9m^2, followed by Mpumalanga (15 063.0m^2), Free State (14 797.8m^2), North West (14 377.1m^2), Western Cape (12 726.6m^2), Limpopo (10 161.7m^2), Eastern Cape (9 902.2m^2) and KZN (9 149.4m^2).
- ✓ The province with the smallest centre size is Gauteng with 2 000m^2 retail GLA. In general, the smallest centres vary between 2 000m^2 and 5 848m^2 retail GLA.
- ✓ The province with the largest centre size is Gauteng with 65 000m^2 retail GLA. In general, the largest centre sizes vary between 19 292m^2 and 65 000m^2 retail GLA.
- ✓ Gauteng reflects the most diverse functionality – including regional, minor regional, community, neighbourhood and local convenience centres. Gauteng is followed by North West, KZN, Western Cape and Mpumalanga, which also have a diverse functionality profiles. Eastern Cape, Limpopo and the Free State reflect less diverse functionality profiles – with only community, neighbourhood and local convenience centres.
- ✓ Supermarkets mainly represent the top anchors in second economy retail centres in the, except for KZN where Ithala Bank is the top anchor, and the Eastern Cape where it is Pep.
- ✓ In terms of the dominant anchor tenants, it is evident that the Shoprite and Spar supermarket chains dominate, followed by Score and Pick 'n Pay.
- ✓ Pep dominates as the main clothing anchor, followed by Jet and Woolworths.
- ✓ Ithala Bank, Standard Bank and FNB made it to the top five anchor tenants in KZN, Eastern Cape and Limpopo respectively.
- ✓ Boxer and Rhino Cash 'n Carry also made it to the top five anchor tenants in KZN and Eastern Cape.

Overall Second Economy Shopping Centre Impact

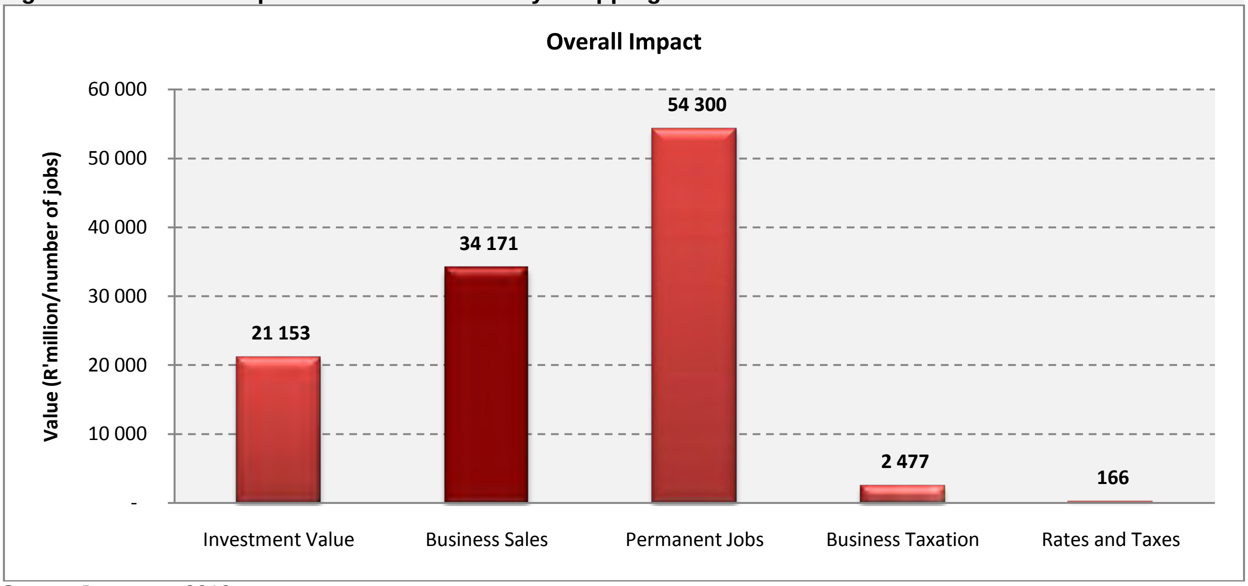
Table 4.3: Overall Impact of Second Economy Shopping Centres in South Africa (Net Present Values)

	Investment Value (R'million)	Business Sales (R'million)	Permanent Jobs	Business Taxation (R'million)	Rates and Taxes (R'million)
1980s	2 371	3 831	6 100	278	19
1990s	7 328	11 838	18 800	858	57
2000s	11 454	18 503	29 400	1 341	90
Total	**21 153**	**34 171**	**54 300**	**2 477**	**166**

Source: Demacon, 2010

Overall, it is evident that second economy shopping centre development contributed to R34.2 billion worth of business sales, R2.5 billion worth of business tax and R166 million worth of rates and taxes, and approximately 54 300 permanent jobs to the national economy since the 1980s. Here, emphasis must be placed on the fact that these contributions came from business tax and rates and tax income that are not obtainable from informal businesses.

Figure 4.18: Overall Impact of Second Economy Shopping Centres in South Africa



Source: Demacon, 2010

4.5 GENERAL SUPPLY TRENDS AND CENTRE PERFORMANCE

Subsequent paragraphs highlight general trends underlying centre development in second economy areas. This information is supported by an indication of the performance of these centres within these economies.

Emerging Retail Boom:

- ✓ A strong focus is placed on the development of high density commercial nodes in second economy areas – predominantly in areas characterised by high levels of accessibility, which frequently incorporatepublic transport nodes and stations.
- ✓ In general, these commercial developments consist of retail centres, supported by office space (private and public sector focus) and community facilities, surrounded by higher density residential developments.
- ✓ Originally these nodes were strongly based on public sector investment, however, since the late 1990s, private sector investment in these nodes has become evident.
- ✓ Since the late 1990s, South African townships have emerged as the new market for national retailers – especially supermarket chains.
- ✓ The increasing movement of retailer chains into previously untapped middle- and lower-income markets has resulted in a substantial increase in shopping mall development in these second economy areas.
- ✓ This trend emerged as a result of changed perceptions regarding the black consumer market. Since 1994, the stigma clinging to the second economy consumer market started to lessen, and retailers acknowledged that consumer expenditure is related to the level of consumer income (LSM profile) and not race. Changes in the general income profile of the black community have also led to the rise of the black middle class, with high aspirational values and a demand for luxury items.
- ✓ Due to the high level of developments in the general middle income suburbs and the stagnation of these markets, developers started to shift their focus to underdeveloped second economy and rural areas.
- ✓ This resulted in the creation of a retail footprint in previously under-serviced areas, especially townships – a trend which is clearly prompted by the burgeoning township economies. The proliferation of retail outlets in townships in the vicinity of South Africa's major towns and cities is proof of this.

- ✓ It has been 15 years since the first modern township mall was built in Dobsonville, Soweto for less than R10 million (built in 1994). Since then the rise of township shopping centres has forced marketers to consider them a real force in the retail industry. Shopping centres are now developed at costs up to R700 million – e.g. Maponya Mall in Soweto[50].
- ✓ In the townships adjacent to Cape Town there is the Nyanga Junction Mall, Vantage Mall, Westgate Mall, Towncentre and Khayelitsha Mall. On the other hand the Durban KwaZulu Natal province boasts the Umlazi and Dube Village Malls. Gauteng, with townships such as Soweto, has Maponya Mall, Jabulani Mall, Dobsonville Mall, Protea Gardens and Bara Mall. Areas such as Port Elizabeth's Motherwell Township (Motherwell Mall) and Polokwane's Seshego Township (Zone 4 Plaza Mall) are all catching up with the trend of mushrooming township malls[51].
- ✓ The Public Investment Corporation (PIC) has been behind a slew of recent investments in township areas. Wayne van der Vent (PIC's head of properties) said that when they started investing in townships in 1997 not much had happened. He indicated that in Soweto, it is only in the past five to six years that everything started to explode. He said that the PIC's portfolio consists of 26 retail centres in townships, with 350 000m^2 GLA. Eleven years ago there was not even 50 000m^2 GLA in total. This indicates the retail growth taking place in these areas. He also emphasised that this phenomenon was largely only true for the retail market - investment in the office and residential markets was limited due to supply and demand aspects. In addition, he emphasised the importance of government commitment and investment to assist in the development of these markets.[52]
- ✓ The sudden surge of demand for space over the past few years is indicative of how well these centres are trading.

<u>National Grocers are moving into townships:</u>

- ✓ **Pick 'n Pay:** Pick 'n Pay has been entering markets in which it was previously not established under the Pick 'n Pay brand – by converting Score Stores and by opening new stores in greenfield developments. This has been done mainly via the franchise model to create a platform for an owner who is also the operator. Aside from empowerment, this helps in achieving a connection with the community that the store serves.
- ✓ Pick 'n Pay has more than 100 stores in mainly black areas and a significant portion of the group's expansion over the next few years will be into similar areas. For the consumer, access to the modern retailing infrastructure of the large chain stores means wider choice at lower prices[53].
- ✓ The food offering is tailored to suit local needs, and with good quality and competitive pricing it is hardly surprising that Pick 'n Pay outlets are becoming the preferred retail store in these areas.
- ✓ **Super Spar:** the 2 600m^2 SuperSpar anchoring the Philani Mall in Umlazi, Durban, set a national trading record for Spar outlets on opening day – eclipsing the performance of the Elim Spar in the Hubyeni Shopping Centre.[54] Spar (3 000m^2) in Umlazi Mega City generated a turnover of R850 000 on opening day and has achieved an average trading density of R2 300/m^2 since then, which is considerably higher than trading densities usually generated by food retailers in suburban malls.

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[50] Source: Creative Intelligence. April. 2009. The rise of township shopping malls.
[51] Source: cms.privatelabel.co.za. S. Mabotja. May 2008. Retail footprint: Developers are making strides in the townships.
[52] Source: www.thepropertymag.co.za. 2009. Township Investments.
[53] Source: Eprop. C. Bisseker, September 2006. Retailers Drive into township market threatens spaza shops.
[54] Source: Eprop. SA Corporate RE. August. 2008. Township Spar sets national opening-day trade record.

- ✓ Evan Walker, a retail analyst at RMB Asset Management, indicated that Shoprite and Spar had been the biggest beneficiaries of having stores positioned in rural areas and townships. This had helped the two groups to gain market share from independent grocers. Pick 'n Pay was transforming their Score supermarkets into Pick 'n Pay stores, but had not opened any new ones, causing it to lose out to Spar and Shoprite.[55]

Tenant Mix

- ✓ In general, centres in second economy areas are required to include 70% to 75% national tenants, 15% regional tenants, with the remainder being local entrepreneurs. According to Future Growth Community Property Fund (CPF), a lot of churn has taken place in terms of small stores over the past 18 months[56]. Where these stores could not pay their rent, theywere encouraged to close down and cut their losses. Despite this movement, vacancies in their centres have not exceeded 4% according to James Hower, the portfolio manager of the fund.
- ✓ He says that the performance of the big national chains has meant the losses incurred due to smaller tenants defaulting on rent have been minimal. He also indicated that the stores still deliver returns because most centres include stores that mainly sell basics – such as food, clothing and building supplies. He also said that retrenchments did not seem to have affected their centres – e.g. their shopping centre in Diepsloot, where there is 70% unemployment, has the second best performing Shoprite in South Africa in terms of turnover growth – this could, to an extent, be due to the fact that consumers were not servicing high levels of debt, and to the safety net that social grants provide.

General Retail Centre Performance

- ✓ The success of township centres is evident from the growth in retail sales and trading densities: for example Umlazi Mega City (35 000m^2) in Durban – which achieved a 17% growth in retail sales in December 2007 compared to December 2006. Retailers were achieving trading densities of more than R20 000/m^2/annum at the centre. These turnovers were achieved despite the series of interest rate hikes and the introduction of the NCA. Another indication of growth is evident from the request by the local taxi association for additional rank space.[57]
- ✓ Maponya Mall in Soweto (66 000m^2) is turning over close to R80 million per month, which compares well with other regional malls in Johannesburg. Management's gross turnover target for the first year of operation was R960 million. The mall ended its first year at around the R930 million mark – which is 3% below the projected turnover. Adam Blow, director of Zenprop, indicated that they are satisfied with the performance under current economic conditions. He also indicated that approximately 7% of their stores are trading below par – a level that they are comfortable with given that a number of those tenants have never traded in a formal retail environment.
- ✓ Vangate Mall (30 000m^2) in Athlone, Cape Town, is currently sitting at an average trading density of R27 000/m^2/annum compared with the industry average of R20 000 to R22 000/m^2/annum.
- ✓ Centre managers also indicated that it is difficult to generalise about what works best in township malls – upmarket stores are not necessarily the ones in trouble. To a great extent shops offering credit perform better, as do restaurants with liquor licenses.

[55] Source: www.fastmoving.co.za. Shoprite's turnover races 27% higher.
[56] Source: Business Report, S. Enslin-Payne. October. 2009. Tenant Mix shields CPF's malls.
[57] Source: Eprop. SA Corporate Real Estate Fund, January. 2008. Umlazi Residents set to buy 25% stake in Township Mall

- ✓ It is also evident that what works in one township does not necessarily work in another. Tenant mix, product offerings and size have to be very site specific,says SA Corporate Retail Estate Fund's CEO, Craig Ewin.
- ✓ Des de Beer, MD of the Resilient Property Group, indicated that the township shopping centres are generally weathering the current consumer downturn better than their suburban counterparts. He says that black consumers have little debt, so higher interest rates don't affect their spending. However, he commented that some retail sectors are taking strain – such as some takeaway chains, and stores selling non-essential items, such as homeware and furniture.[58]
- ✓ It is also interesting to note that new retail centres can be developed at yields of between 10% and 11.5% in these second economy areas, whereas buying existing stock in suburban areas has become very expensive, with yields generally down to between 7.5% and 9%.
- ✓ Retail centres in these areas are also experiencing an increase in value – for example, Daveyton Mall (East Rand) experienced a value increase from R49 million to just more than R70 million over a two year period.

<u>Impact on Spaza Stores and Informal Trade</u>

- ✓ The informal sector forms the economic foundation of many black communities, with profits being circulated within the township and supporting downstream industries. Informal trade is also one of SA's biggest employment creators. It is therefore important to protect these traders against the impact of formal retail centres in these areas[59].
- ✓ New ventures have emerged: Achib has launched an initiative to safeguard the livelihoods of the 137 000 hawkers it counts as members. Its approach has been to become a co-operative so that it can make purchases as a single entity on their behalf. The idea is to create a network of branded MyStore Co-operatives in townships, owned by entrepreneurs that will act as wholesalers to the retailers in the group. By creating large national buying organisations that deliver stock to centrally located MyStores, Achib believes it can reduce retailers' costs by about 10%. Spaza shops and retailers will be able to brand themselves as Neighbourhood Co-operative Stores.
- ✓ However, the biggest problem members have is the lack of business and retail merchandising knowledge, lack of access to finance and their inability to secure volume discounts from wholesalers.
- ✓ Through this initiative members will receive a R5 000 credit line and overnight storage facilities, after training is completed.
- ✓ In order to absorb the impact of the formal retail centres in these areas, big retail companies are being encouraged to partner with small township players, and local and metro councils are coming up with various projects to create jobs and develop SMMEs.
- ✓ Branded franchises such as News Café, Debonairs, Steers, Nando's and Primi Piatti offer small business people in townships the opportunity to acquire these franchises in township shopping centres.[60]

[58] Finweek. J. Muller. October. 2008. Township Trade: Pumping or Slumping?
[59] Source: Eprop. C. Bisseker. September. 206. Retailers' drive into the townships threatens spaza shops.
[60] Source: cms.privatelable.co.za. S.Mabotja. May 2008. Retail footprint: developers are making strides in the townships.

4.6 INITIAL RETAIL CENTRE DEVELOPMENT INDICATORS AND RISK PROFILE

The success of retail centre developments in second economy areas relates to a number of factors, and over time certain indicators have become apparent. These indicators are listed hereafter – and will be refined – based on the findings of the market research.

- ✓ Location of the centre is critical: emphasis is placed on location at highly accessible places such as public transport interchanges or railway stations where high concentrations of potential consumersare found on a daily basis.
- ✓ Size of the centre: the size of the centre will vary based on the characteristics of the area and the potential consumer market. Retail centres in these areas, however, should not be smaller than 10 000m^2 of retail floor space – else financial institutions will not get on board.
- ✓ Second economy areas have, in recent years (i.e. over last five years), experienced the development of fully fledged regional malls as indicated in the section above.
- ✓ These centres should be configured in such a manner that they consist of open and enclosed spaces – providing sufficient space to accommodate the mass of consumers moving through them.
- ✓ Developers should refrain from introducing low-key, second rate centres to these areas - market research has proven that these communities have well defined aspirational values and wish to see national brands represented in their areas. Due to the increasing interest of national retailers in these areas it has become a lot easier to obtain their buy-in.
- ✓ Centres in these areas are typically focused on convenience, offering a pleasant and sociable shopping experience. An increasing number of successful 'destinations' are being developed, also including higher order semi-durable and durable goods.
- ✓ Stores need to be created that work for the markets without downgrading the brand image.
- ✓ In terms of current trends, tenant composition should generally be at a ratio of 70% national tenants and 30% regional and local tenants.
- ✓ Flexible trading hours are key to success, as are security, cleanliness and effective management.
- ✓ Informal trading should be addressed in a positive way.
- ✓ Local buying is crucial to the development process and success – the community should understand the benefits of the business node.
- ✓ Each centre should be developed to address the specific needs of that local consumer market – this is important because vast differences exist between second economy nodes in South Africa.

Risk Profile:
Most South African investors have identified and defined their niche in the market to the extent that there is a clearly identifiable spectrum of investors with specific sectoral and / or geographic location preferences. Most funds and syndicates involved in the retail market have a premeditated strategy and focus – mainly on either first or second cconomy markets, and furthermore, they are specific in terms of certain shopping centre types / order sizes. Hence, given site locality and the nature of the market, the potential spectrum of investors / funds most likely to show interest in a project can be narrowed down with a fair degree of certainty.

The delicate balance between real estate risk and return allows the investor to constantly evaluate and either proceed with or terminate the investment process during any given step. The magnitude of capital investment involved renders this process extremely sensitive and investors tend to be risk averse. Hence, as a general rule, tolerance margins for deviation from accepted investment practices are slim, and the current economic climate compounds this sentiment.

In a South African context, certain investment groups have developed a highly simplified (though pragmatic) model which enables them to perform an initial first round filtering (scoping / screening) exercise and eliminate projects with unappealing risk profiles.

- ✓ Are there 100 000 people within a 10 km radius (or at the very least 60 000 – 70 000)?
- ✓ Can the site accommodate a development of 15 000m^2 or more (or at the *very least* 10 000m^2)?
- ✓ Can the site accommodate future expansion?
- ✓ Is the site controlled by a limited number of private entities?
- ✓ Is the site controlled by a tribal authority? Do they support the project? Can the absence of a land claim be verified? Is the local tribal authority agreeable to an equity stake of between 3% and 7.5% in the project? Does this correlate to the approximate cost of providing developable land for the project?
- ✓ Is the site located along a main provincial route or freeway?
- ✓ Is there an existing conglomeration of business activities, social services and / or a taxi rank in the vicinity and is the site far enough from the closest 'old town' CBD (10km)?
- ✓ Is it a 'greenfields' development OR is demolition and redevelopment required?
- ✓ Are there any onerous obligations that may increase the project risk, including complex / cumbersome site assembly (multiple land owners – private or public); inappropriate zoning and the need to rezone; social obligations and political expectations?
- ✓ Will the development be in a position to dominate the local market?
- ✓ Do local conditions allow for a modern design and national tenant driven mix?
- ✓ Could an initial first year minimum income yield of at least 9%-10% be achieved?

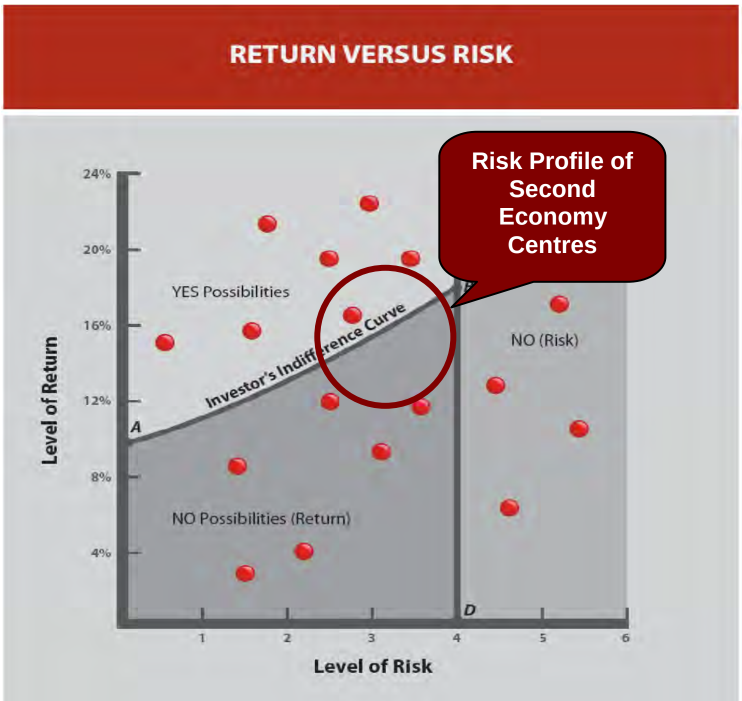

Figure 4.19 illustrates the dynamics of second economy shopping centres. The graph shows the relationship between centre size, the distance of a centre from the town CBD and the primary market population. The figure indicates three "zones"; an ideal zone, the medium risk zone and a high risk zone. These zones indicate the risk involved in developing a centre that falls within various combinations of the three variables (market population, centre size and distance from CBD). A centre of 10 000 m^2 serving a primary market population of 60 000 people and which is located 8km from a town CBD will fall within a high risk zone. A centre of 20 000m^2 serving a primary market population of 100 000 located 10km from town CBD will fall within the medium risk zone.

Figure 4.19: Second Economy Shopping Centre Dynamics

Source: Du Toit, Phd (in process)

4.7 SYNTHESIS

This chapter highlighted the general trends underlying retail centre developments in second economy areas, their roles within nodal development and their importance as anchor investments in these economies. It also touched on the debate about the applicability of the SACSC retail centre hierarchy in these second economy markets.

The supply side of the second economy retail market is characterised by the following trends:

- ✓ Retail centre development in second economy areas has increased nationally between 1962 and 2009 – particularly from the 1990s onwards.
- ✓ The majority (64.9%) of these centres have been developed post 1994 and 35.1% were developed pre-1994.
- ✓ In terms of retail floor space developed, it is evident that the largest bulk has been developed post 1994 (75.5% of total retail floor space developed), especially in the periods 1995 to 1999 (22.8%) and 2005 to 2009 (37.6%).
- ✓ The average size of retail centres increased from a mere 6 500m^2 retail GLA to nearly 20 000m^2 retail GLA over this time period.
- ✓ The smallest retail centres varied between approximately 2 200m^2 retail GLA and approximately 4 300m^2 retail GLA.
- ✓ The largest retail centres increased from a mere 11 000m^2 retail GLA to an impressive 65 000m^2 retail GLA since 1962 to 2009.
- ✓ Pre-1990, mostly local convenience and neighbourhood centres were developed. Post 1990, a stronger trend of building community centres developed, and post 1994 regional centres became part of the mix.

- ✓ It is evident that the first second economy retail centres were developed in KwaZulu Natal (1962), followed by the Western Cape (1978) and Gauteng (1984). Mpumalanga reflected the latest dated retail centre development (1992).
- ✓ Gauteng boasts the highest number of retail centres in second economy areas (31) and accounts for 22.0% of national second economy centre floor space.
- ✓ KwaZulu Natal boasts 28 centres, however it accounts for only 13.2% of national second economy retail centre floor space.
- ✓ Limpopo boasts 21 centres, accounting for 11.1% of national second economy retail centre floor space.
- ✓ Eastern Cape, Mpumalanga and North West have 18 centres each – accounting for 9.4%, 14.3% and 16.1% of national second economy retail centre floor space respectively.
- ✓ Western Cape has 15 centres and the Free State just 5 centres –accounting for 10.1% and 3.7% respectively of national second economy floor space.
- ✓ In terms of the average centre size, it is evident that North West has the largest average size of 17 029.1m^2, followed by Mpumalanga (15 063.0m^2), Free State (14 797.8m^2), Gauteng (14 267.7m^2), Western Cape (12 726.6m^2), Limpopo (10 161.7m^2), Eastern Cape (9 902.2m^2) and KZN (9 149.4m^2).
- ✓ In terms of functionality it is evident that Gauteng reflects the most diverse functionality – including regional, minor regional, community, neighbourhood and local convenience centres. Gauteng is followed by North West, KZN, Western Cape and Mpumalanga, also reflecting a largely diverse functionality profile. Eastern Cape, Limpopo and the Free State reflect a less diverse functionality profile – having community, neighbourhood and local convenience centres.
- ✓ Overall: Gauteng, KZN, North West, Mpumalanga and Limpopo reflect the highest development and investment profile in terms of second economy retail centres.
- ✓ The top anchors in second economy retail centres in the provinces are mainly represented by national tenants - supermarkets (mostly Shoprite and Spar), except for KZN with Ithala Bank (Standard Bank and FNB also fall under the top five anchor tenants of other provinces) and Eastern Cape with Pep (Jet and Woolworths are also important clothing anchors in terms of the other provinces).
- ✓ Boxer and Rhino Cash 'n Carry also made it to the top five anchor tenants of KZN and Eastern Cape.

These centres are performing exceptionally well – as is evident from annual income, trading densities, low vacancies and the increased interest by national tenants in moving into these areas. Developers also developed an initial screening process to identify retail projects in these areas with acceptable risk profiles – from which basic indicators could be delineated to determine the success of retail projects.

Overall, it is evident that retail centre development is continuing along a positive trajectory in these areas – with emphasis on the township environments. It is therefore required to investigate the impacts of these developments on the local consumer market and local business environment. The following chapters are employed to reflect on these impacts by means of case studies and primary data collection methods.