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TAKING STOCK....

THE DEVELOPMENT OF RETAIL CENTRES IN
EMERGING ECONOMY AREAS

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[Urban Land Markets Programme
Southern Africa]



MAKING URBAN LAND MARKETS WORK FOR THE POOR





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Jabulani Mall Dennilton Moutsi Mall Thohoyandou
Mall Katlehong Shopping Centre Giyani Shopping
Centre Tsakane Mall Atteridgeville Mall Khayelitsha
Gugulethu.....



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Why are we interested.....

Urban LandMark's main objective is to make markets work for the poor and in doing so to improve the access of the poor to well located spaces within our cities

Retail is one of the few significant forms of investment occurring in the emerging market areas in our cities

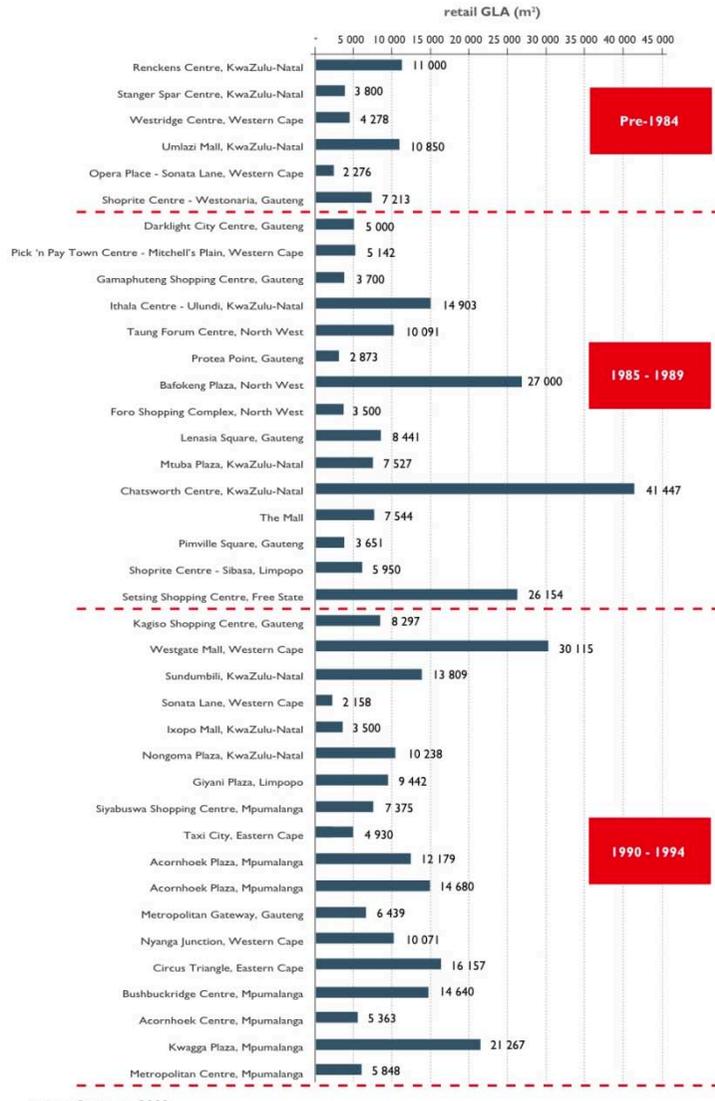
Estimated that there has been about R21 billion worth of retail investment in these areas since the 1980's

About 75% of Treasury's Neighbourhood Development Programme Grant is targeted towards retail orientated intervention

Significant growth of centres over the years....

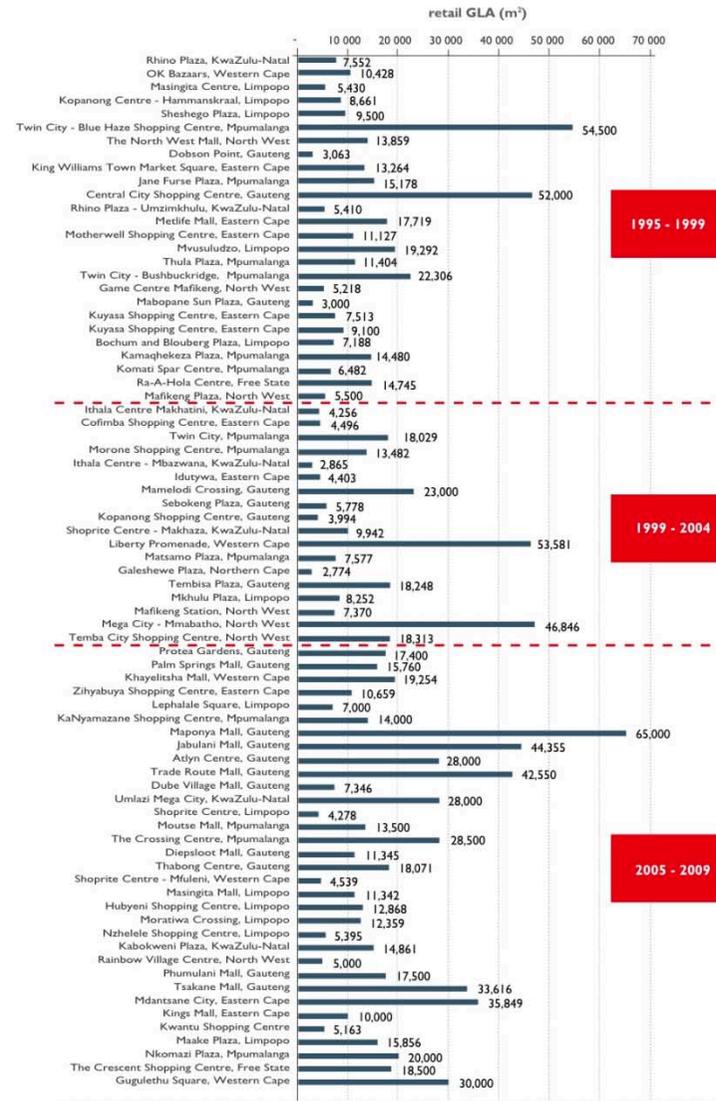
.....1960's – 1994

figure 12: retail centre development in 'emerging economy' areas: 1962-1994

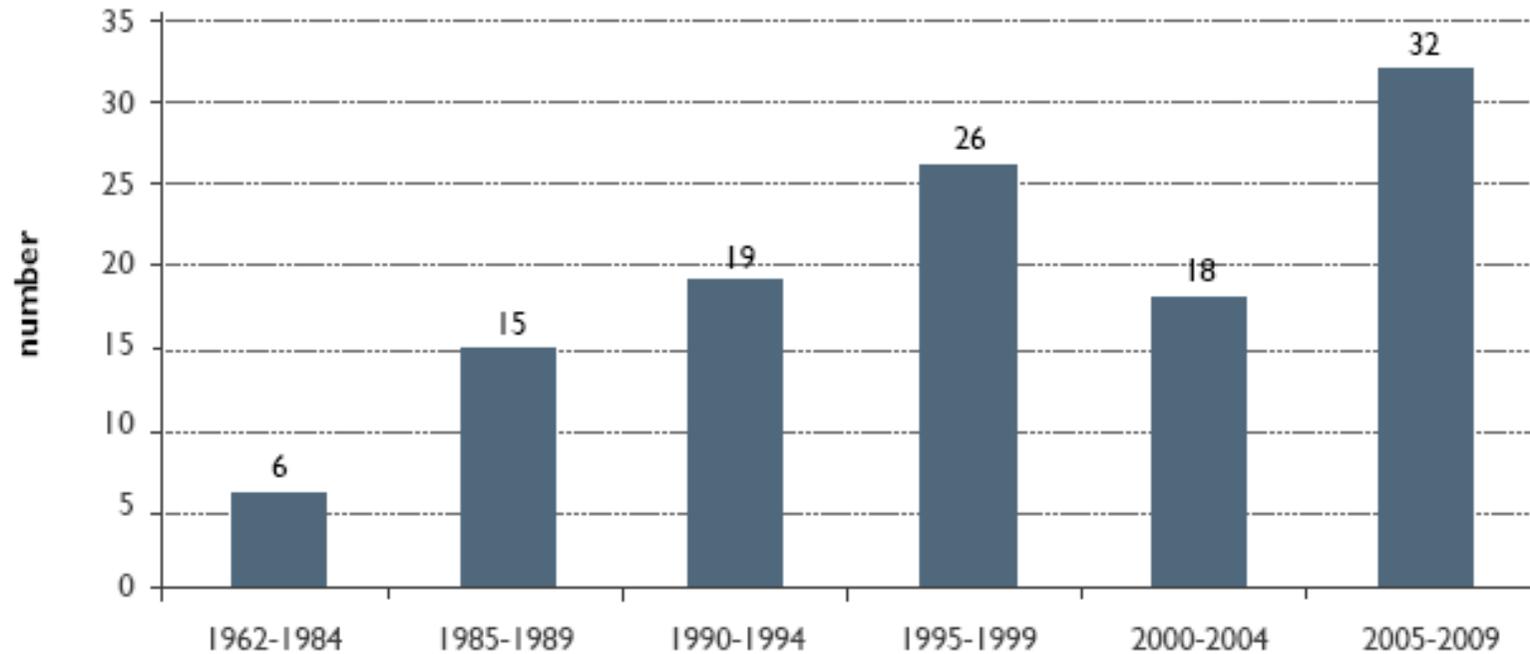


.....last 15 years

figure 13: retail centre development in 'emerging economy' areas: 1995-2009

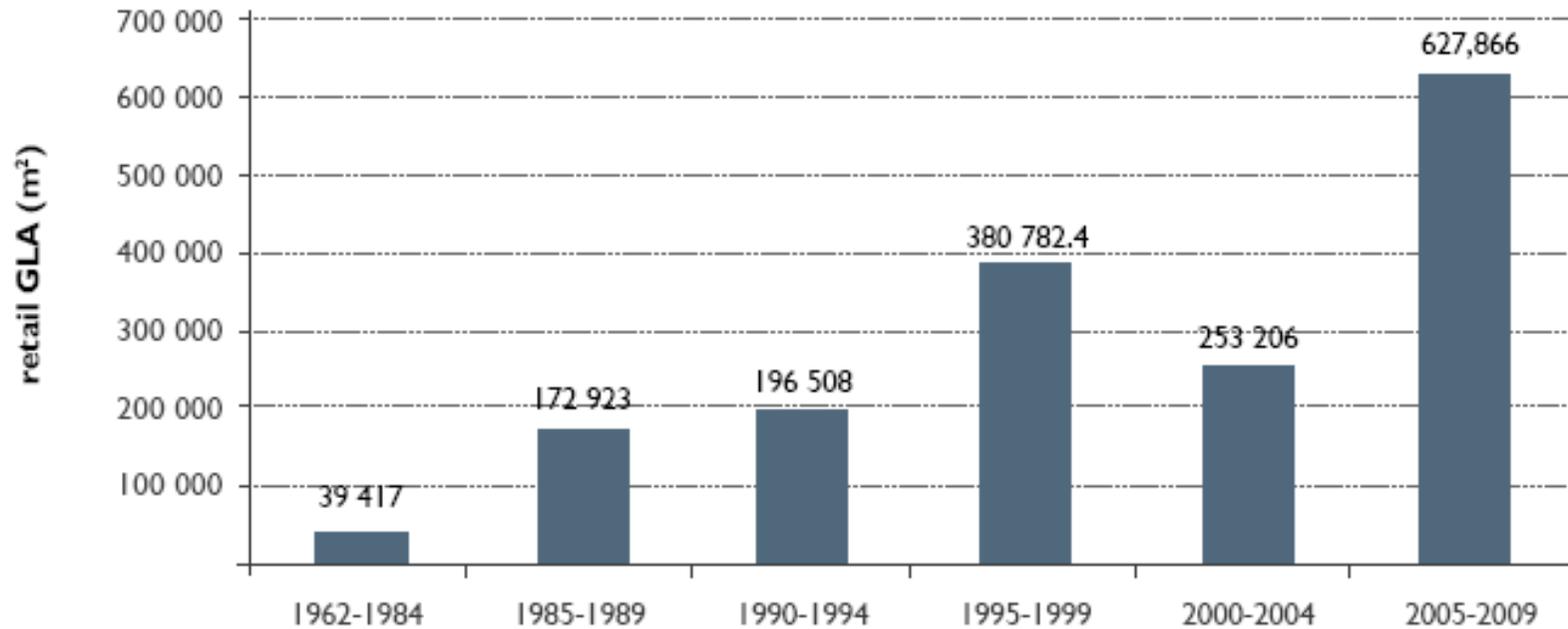


Number of Centres



source: Demacon, 2009

Total Area of Centres



source: Demacon, 2009

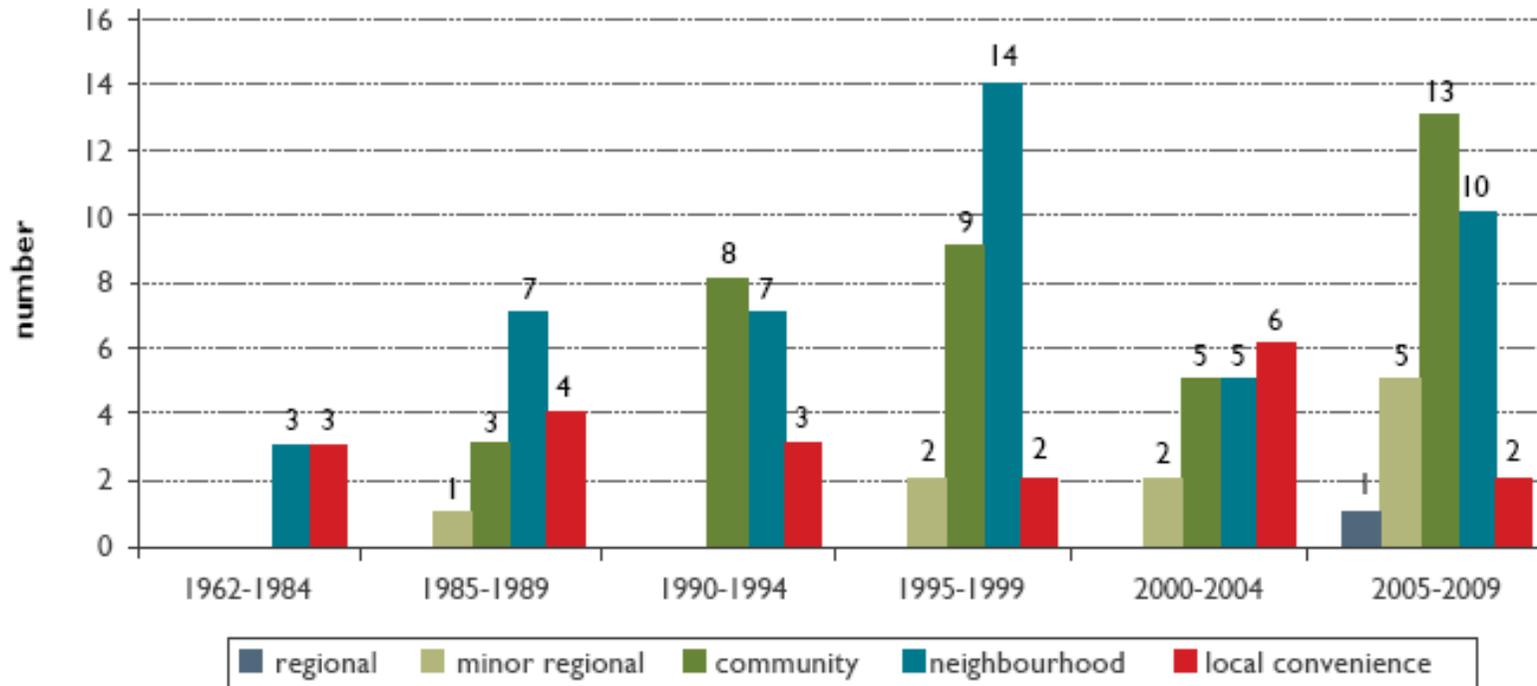
Relative Scale of Development



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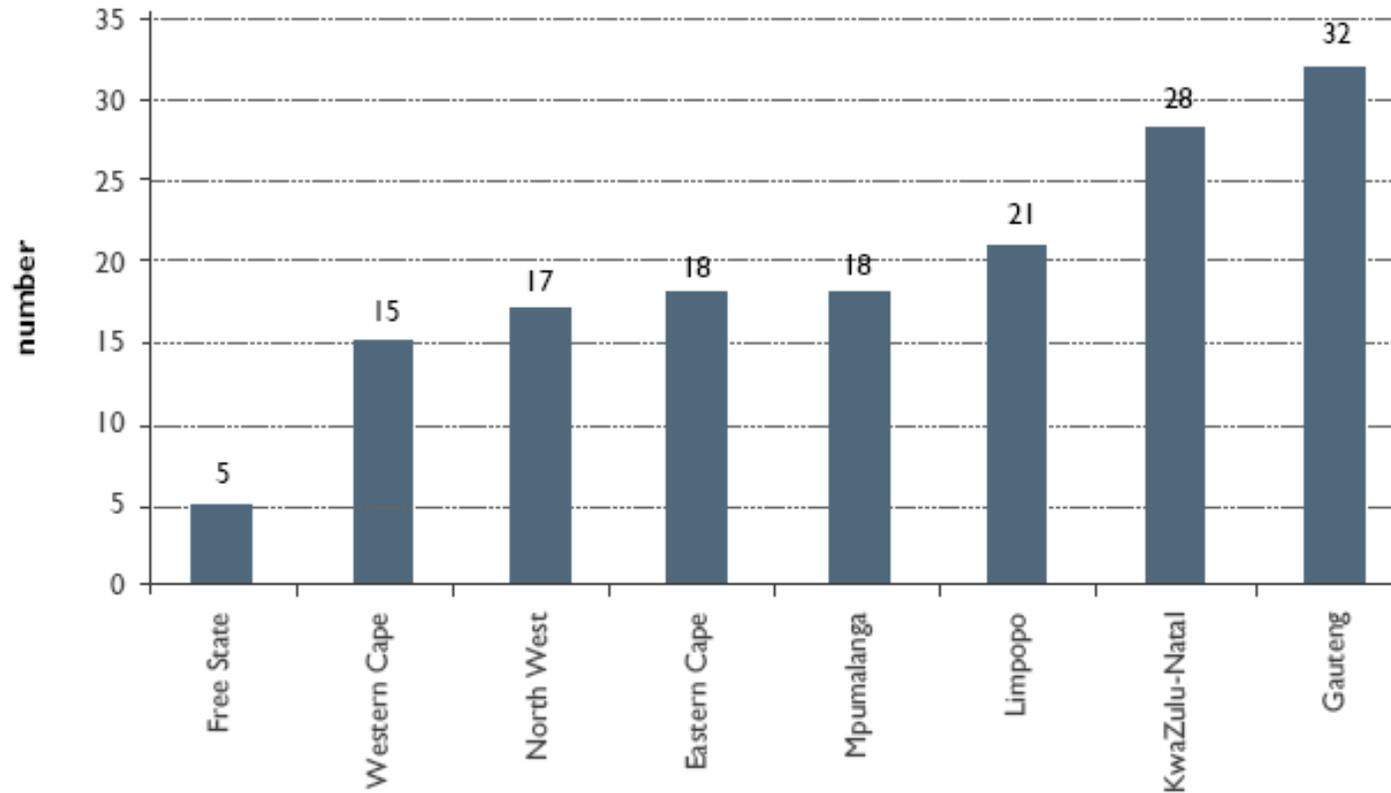
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Function of Centres



source: Demacon, 2009

By Province



source: Demacon, 2009

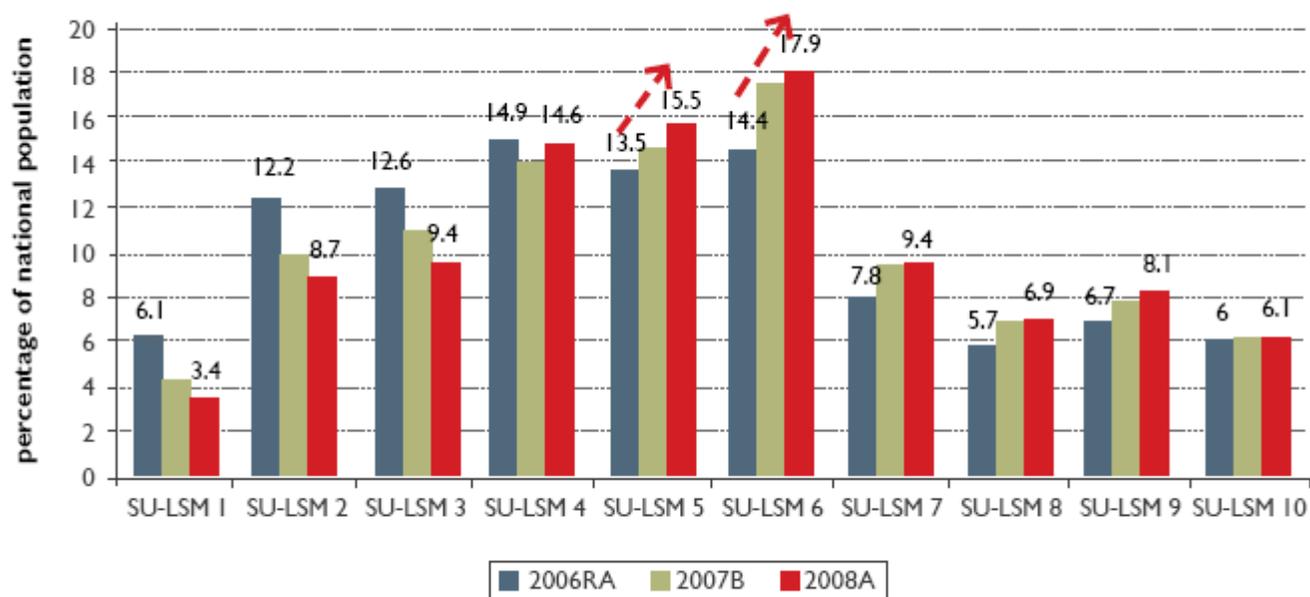


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Driving Forces

figure 3: LSM trends, 2006-2008



source: Demacon, 2009

note: RA, B and A refer to the specific SAARF AMPS® data sets used in the compilation of LSM trends

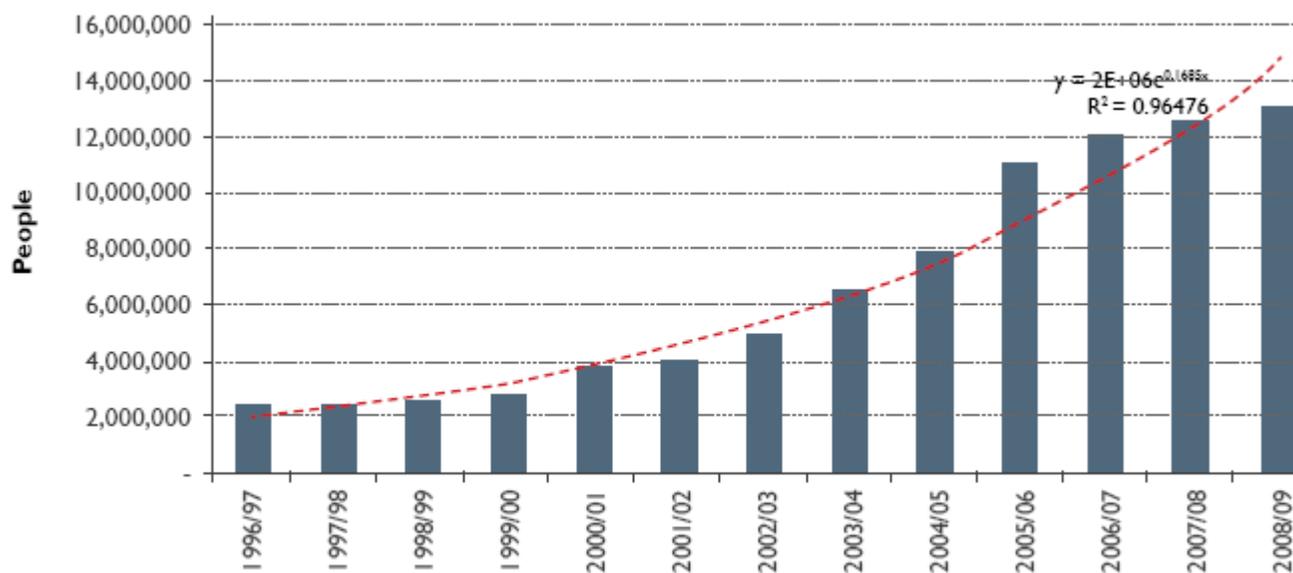


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Driving Forces

figure 2: growth in social grant recipients: 1996-2009



source: Demacon ex-South African Social Security Agency (SASSA), 2008/09, Annual Statistical Report on Social Grants

Driving Forces

“Our growth depends in part on our ability to open and operate new stores profitably. One of our key business strategies is to expand our base of retail stores.

If we are unable to implement this strategy, our ability to increase our sales, profitability, and cash flow could be impaired. To the extent that we are unable to open and operate new stores profitably, our sales growth would come only from increases in same store sales.”

(Edcon, 2010, Annual Report)

Driving Forces

Cathy Smith, Walmart's international chief financial officer, says the company has a list of criteria that must be met for it to enter a market.

These include a growing middle class and a market moving from an informal retail environment to a more formal one.

The first evidence of the Walmart effect [in South Africa] will be in food, particularly in Cambridge Food stores.

These stores are located in high-density commuter nodes, such as Baragwanath taxi rank.

The plan is to spend about R1 billion on rolling out these stores.

Once there are 100 stores with sales of R100 billion the next target is 200 stores.

There will be significant future store growth in under-served areas.

source: Walmart spells out how it will get going in SA. Sunday Times, 4 June 2011



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.....Mixed Reactions

“The people of Alexandra will fight for what belongs to them. We will cripple the tenants until they leave.”
said Makgoka.

(Soweton, 15 June 2009)

Vs

Tebogo Mogashoa of Pan Africa Development Company says, “Pan Africa Shopping Centre represents the dreams and aspirations of the Alexandra people. We developed it for them.”

(Eprop, 18 August 2009)



Case Studies



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Location & Nature of Area

	<i>location</i>	<i>nature of area</i>	<i>centre development date, and size</i>	<i>centre type</i>	<i>parking bays</i>	<i>anchor tenants</i>
Jabulani Mall	Soweto, Johannesburg, Gauteng	major metropolitan area - township	2006 44 355 m ² ; 104 shops	minor regional centre	156 covered 7 265 open	Shoprite Edgars Woolworths Game
Central City	Mabopane, Tshwane, Gauteng	major metropolitan area - township	1996 52 000 m ² ; 90 shops	minor regional centre	1 030 open	Shoprite Score Clicks
Liberty Promenade	Mitchell's Plain, Cape Town, Western Cape	major metropolitan area - township	2003; refurbished: 2005 53 581 m ² ; 150 shops	minor regional centre	2 452 open	Edgars Woolworths Game Pick n Pay
Umlazi Mega City	Umlazi, Durban, KwaZulu-Natal	metropolitan area - township	2006 28 000 m ² ; 102 shops	minor regional centre	465 open	SuperSpar Woolworths Jet Mr Price
Thula Plaza	Bushbuckridge, Mpumalanga	deep rural/displaced urban area	1998; refurbished: 2003 11 404 m ² ; 36 shops	community centre	not specified	Score
Nkowa-Nkowa	Tzaneen, Limpopo	rural area	n/a	n/a	n/a	n/a

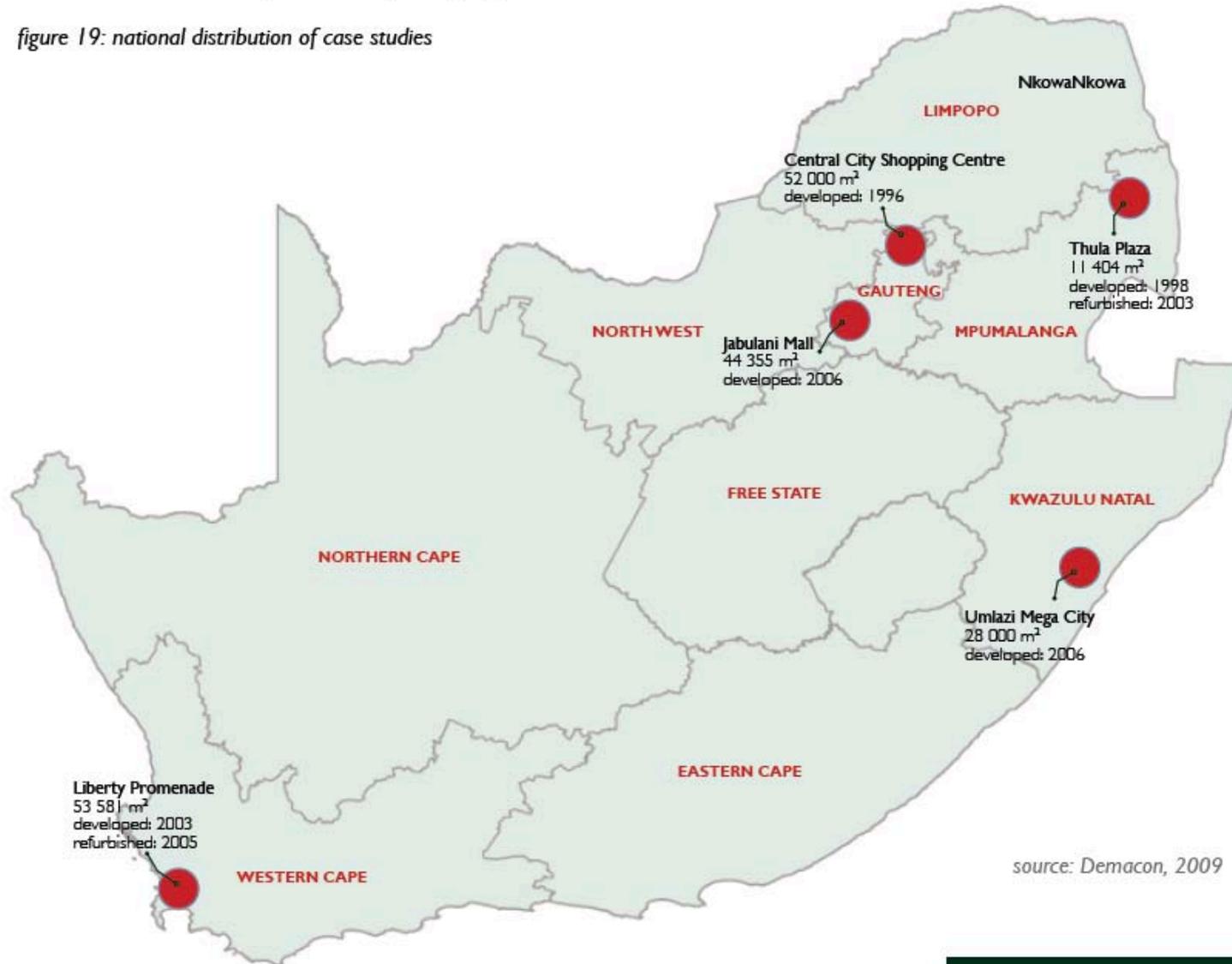
source: Demacon ex South African Council for Shopping Centres, 2009/2010



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figure 19: national distribution of case studies



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Methodology

Quantitative Data:

- Six sets of consumer market surveys were conducted in each of the case study areas.
- Surveys were randomly conducted within a delineated 10km radius.
- 700 surveys were conducted as part of the market research:
 - Central City (100), Jabulani Mall (109), Liberty Promenade (100), Umlazi Mega City, (107), Thula Plaza (52), Nkowa Nkowa (78)



Methodology

- 360 randomly selected local business surveys were conducted within three of the case study areas in order to identify the level of business sophistication and to assess the impact that the formal retail development had on the local business environment:
 - Central City (99), Jabulani Mall (99), Thula Plaza (81)



Methodology

Qualitative Data:

- Face to face interviews were held with developers and investors involved in retail centre development in these second economy areas - i.e. rural areas and townships.

Impact of Centres

HEALTH WARNING!!!

- Number of centres
- Perceptions
- Averages

Impact on Consumers

1. Impact of shopping patterns:

- Decrease in external shopping from 55% - 38%
- 71% of formal shopping done at new centre
- 31% said they shopped less frequently outside the area
- 66% said that local expenditure had increased
- Shopping at local businesses dropped from about 23% to 20%

Impact on Consumers

2. Impact on time and travel costs:

- Travel time to formal centres dropped by 57%
- Travel time to small businesses dropped by 25%
- Travel costs to formal centres dropped by 36%
- Travel costs to small businesses dropped by 21%

Impact on Consumers

3. Overall consumer perceptions:

- 75% said that the centre made more, and a wider range of, affordable goods and services available locally
- 79% said that the centre provided a safe and secure retail destination
- 83% perceived the need for the centre to expand
- 7% were negative about the centre
- 73% perceived a decline in support of local businesses

Impact on Small Businesses

1. General location preferences:
 - 92% stated safe and secure spaces
 - 82% stated visible spaces
 - 82% stated proximity to busy streets and transport interchanges
 - 80% stated proximity to banking services

Impact on Small Businesses

2. Impact of centre in terms of location:

- Safety & security - 54% (same), 32% (inc)
- Visibility - 39% (same), 41% (inc)
- Transport interchanges - 36% (same), 51% (inc)
- Banking - 50% (same), 41% (inc)
- Foot-traffic - 30% (same), 48% (inc)

Impact on Small Businesses

3. Impact on business performance

- 75% saw growth of 5-10%, 25% saw a decline of 5-10%
- Employment - 64% (same), 14% (inc)
- Profit - 40% (same), 31% (inc)
- Turn-over - 42% (same), 29% (inc)
- Supply - 13% of stock bought from the centre

Impact on Small Businesses

4. Factors stopping the relocation to the centre:

- Lack of customers
- Lack of funding
- High rentals
- Low profits
- Competition from nationals

.....50/50 split between those businesses wanting to (and not) relocate to the centre



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Impact on Small Businesses

5. Factors impeding business growth besides the centre:

- High levels of competition
- Lack of business support & planning
- Crime & stock theft
- Lack of visibility to customers
- High stock prices

Prof. Andre Lighthelm, Research Director of the Bureau of Market Research at UNISA concurs with the observation about local businesses, saying that 2008 survey findings of retail development in Soweto showed that the impact of shopping mall development on existing small businesses could not be explained uni-dimensionally, purely portraying a decline in small business activity.

“While some small businesses expect to close their doors, several small businesses were established due to mall development. This is particularly true of street vendors with their ability to intercept large numbers of township consumers at the new malls.

“A third of the respondents surveyed in Soweto predict an expansion of their business turnover, while another third expects a contraction. Some regard the newly developed malls as their main competitor, while others experience stiff competition from fellow small businesses.”

source: Small business sustainability in a changed trade environment: the Soweto case, 2009



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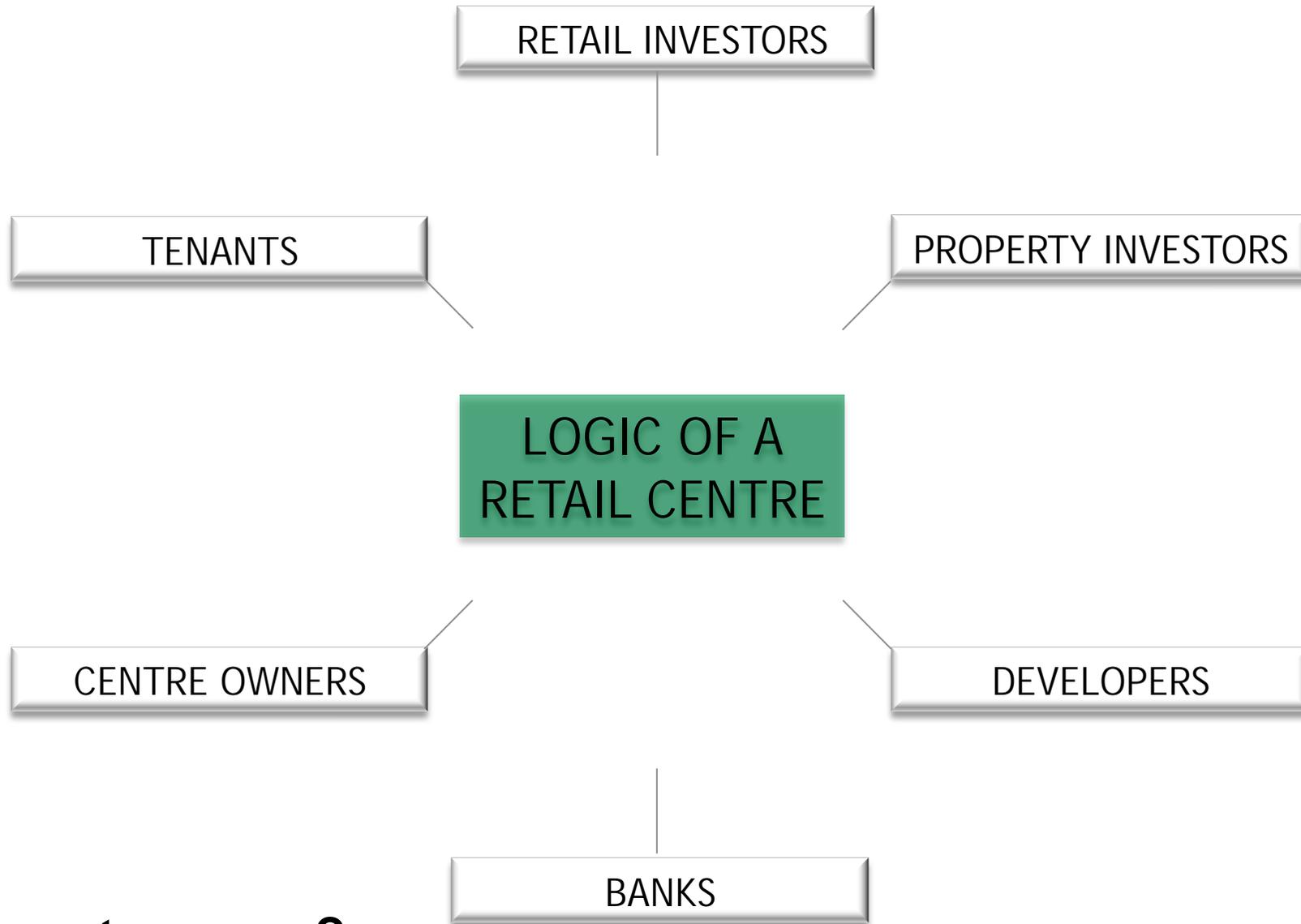
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Some Key Issues & Discussion Points

- Number & size
- Design & management
- Rentals
- Incorporation of small businesses
- Subsidisation and contributions
- Others....?

Conclusion

If we are going to maximise the positive impact of these centres and minimise their negative impact, while at the same time ensuring their viability, it is important that we understand the logic behind them



...customers...?

Conclusion

At the moment, retail centres represent one of a few forms of significant investment in 'emerging economy' areas and as a result, investors and developers must be aware that there will be competing claims on this investment, and very rational attempts by the different role-players to maximise the development for their benefit.



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Conclusion

However, the capital investment and borrowing required to develop a centre results in developers having to be risk averse, especially in the current economic climate.

Hence, the room to deviate from accepted investment practices are very slim and therefore engagement around how centres can benefit and contribute to local economic development should be realistic and mindful of prevailing conditions.



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