

Shopping space glut continues

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The glut of new shopping centre space that continues to grow in major cities and towns is starting to bite into landlords' returns, results released last week by two of SA's largest retail property owners show.



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Trading densities (turnover/m²) across Growthpoint Properties' portfolio of 59 shopping centres, which is worth R32,6bn, slowed to an average 4% for the six months ending December. That's way down from the 7%9% level typically achieved by Growthpoint in the preceding five years.

Trading densities - a key metric used by the industry to measure the strength of the retail sales environment - slumped into negative growth territory at some of Growthpoint's shopping centres. These include Greenacres and Walmer Park in Port Elizabeth, Alberton City, south of Johannesburg, and City Mall in Klerksdorp.

"The key issue is competition from new centres," said Growthpoint CEO Norbert Sasse at the group's interim results presentation in Johannesburg last week. He noted that these malls were negatively affected by last year's opening of megacentres Baywest Mall in Port Elizabeth, Mall of the South in Johannesburg and Matlosana Mall in Klerksdorp.

"With the economy not really growing and consumer income under pressure, there's just not enough growth in spending to absorb additional retail space," he says.

It is worrying that a number of new shopping centres are still expected to come on line over the next two years, he says.

Clearly, the performance of shopping centres is becoming increasingly divergent, with location, size and dominance of a catchment area seemingly being key differentiators.

The Growthpoint shopping centres that are still recording inflation-beating growth are most notably those in the Western Cape, which as a region achieved average trading density growth of 8%.

The V&A Waterfront in Cape Town, which is the best performer in Growthpoint's retail portfolio by far, recorded 13% growth. Sasse ascribes the outperformance to the strength of Cape Town in general and the V&A precinct in particular due to the city being an international tourist destination.

Demand for floor space at the V&A is also supported by its frequent selection as the first port of call for international brands that are looking to open shop in SA. Swedish fashion chain H&M is a case in point.

Sasse says it has been "shooting the lights out" since it opened its first shop in SA at the V&A in October last year.

In fact, the V&A store is one of H&M's top five globally in terms of volumes traded.

Interim results announced last week by retail-focused Hyprop Investments, whose portfolio of 11 SA malls includes landmarks such as Canal Walk at Century City in Cape Town, Rosebank Mall in Johannesburg and Clearwater Mall on the West Rand, reflect a somewhat more upbeat picture.

The company's SA-based portfolio recorded 7.7% like-for-like income growth for the six months ending December. But Hyprop CEO Pieter Prinsloo concedes that malls such as The Glen, south of Johannesburg, and the city's Hyde Park Corner have been affected by the opening of new retail space in their catchment areas.

In the 2015 financial year, Hyprop's Clearwater Mall also experienced a marked dip in turnover following the opening of nearby Cradlestone Mall.

However, Hyprop's newly revamped Rosebank Mall, Canal Walk in Cape Town and Somerset Mall in Somerset West have reported healthy sales growth of about 10%-12% in the six months ending December.

Prinsloo agrees that Cape Town malls are now outperforming their counterparts in other parts of SA, as overseas visitors to the Mother City are seemingly doing more shopping on the back of the weaker rand.

Arrears remain flat, vacancies in Hyprop's SA portfolio of malls are down to less than 1% and there's still strong interest for space among international retailers. But Prinsloo says there is no doubt that tougher times lie ahead for SA's retail property market; the dismal economic growth outlook and rising interest rates are bound to lead to lower consumer spending.

Analysts agree that while shopping centre owners are generally more protected from a consumer spending downturn than their retail tenants due to built-in annual rental escalations in lease agreements, landlords will also start to take strain.

Meago Asset Managers director Thabo Ramushu says: "One would expect that the overburdened consumer is going to manifest in weaker retail property performance eventually.

"Secondary retail centres in particular will start falling by the wayside this year."

Source: Financial Mail

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