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SAPOA

RESEARCH

RETAIL TRENDS REPORT

Q4 2011:
SHOPPING CENTRE PERFORMANCE INDICATORS

2011Q4 vs 2010Q4	*Super Regional*	*Regional*	*Small Regional*	*Community*
Trading Density	▲	▲	▲	▲
Gross Rentals	▲	▲	▲	▲
Foot count	▼	▲	▼	–
Money spent per capita	▲	▲	▲	–
Cost of occupation	▼	▼	▲	◄ ►

SUMMARY POINTS

- Trading densities remain at a healthy level but growth is slowing. This may be an indication of times to come as the consumer spending wave begins to lose steam.

- Vacancy rates in shopping centres improved marginally overall, in line with robust retail sales performance in recent quarters.

- Overall foot count continues on its downward trend while spend per capita is still increasing. While this can be at least partly attributed to an oversupply in retail space and macro-economic influences, it may also point to changing shopping habits of consumers.

IPD
T: 011 656 2115
F: 011 656 2797
sgodoy@ipdindex.co.za
www.ipd.com/southafrica

SAPOA
T: 011 883 0679
F: 011 883 0684
eventsmanager@sapoa.org.za
www.sapoa.org.za

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CONSUMER SPENDING BEGINNING TO COME UNDER PRESSURE

Average **trading density** growth was slightly subdued over 2011, and would have been weaker if it were not for a very good December at the shops. Annualised growth for 2011 overall was disappointing at 3.8%, down on the 9.4% achieved in 2010.

Super regional centres achieved the strongest increase in trading densities in Q4 2011 compared to the same quarter the previous year, at 10.2% followed by community centres at 4.0%. The spike for super regionals is to be expected as a large portion of Christmas shopping takes place at such centres. Outside of these two categories, however, the December peaks were only marginally higher than the previous year, as shown in Fig 1.

This spending splurge in larger centres has come at a cost, however, as the January retail sales figures according to Stats SA depict a significant slowdown as a post-December consumer hangover becomes evident.

Gross rental growth remains sedate and is effectively moving sideways for most centre types except super regional centres which reflect a slight upward trend. On an annual basis super regionals achieved 6.2% growth in 2011, regionals 2.6%, small regionals 2.4%, community centres -0.8% and neighbourhood centres 0.2%.

While smaller centres have struggled to achieve growth in gross rentals in the past year, their increases in base rentals have been slightly better at 2.6% (vs -0.8%) and 1.3% (vs 0.2%) for community and neighbourhood centres respectively, implying that landlords may have been forced to keep increases in recoveries in check so as to minimize impact on their tenants' margins.

Fig 1:
Trading density R/m²/month – quarterly average

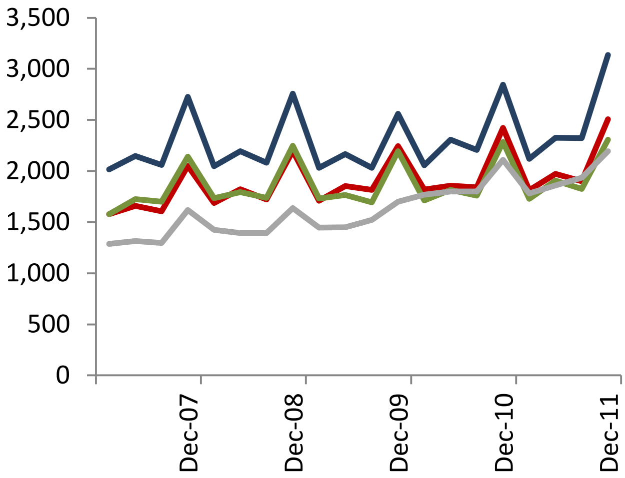
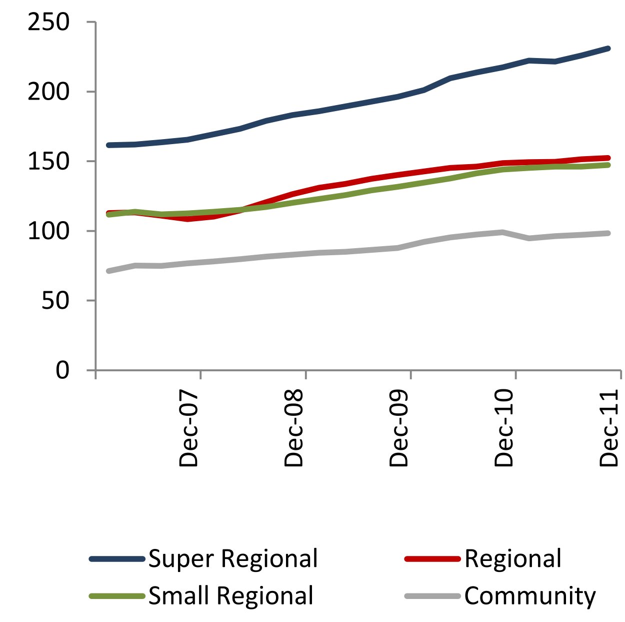


Fig 2:
Gross rentals R/m²/month – annual average



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Vacancies in most centre types have decreased marginally in the fourth quarter of 2011, except for super regional and small regional centres which registered marginal increases.

Overall, though, retail vacancies are relatively low compared to other sectors in the market. Retail vacancies are currently 1.8% for neighbourhood centres, 4.3% for community centres, 3.4% for small regionals, 3.0% for regionals and 1.8% for super regionals. The softening of economic conditions is starting to reflect, however, as vacancy levels now rest slightly higher than at the end of 2010 for the three largest centre types.

Foot count across all centre types has been on a steady decline over the past few years as illustrated in Fig 3, with 2011 registering an average contraction of 4.3%. While this is worrying, the rise in spend per capita must also be considered as it seems consumers are making fewer trips to the shops yet spending more overall. This is in part due to an increase in competing retail supply, but may also suggest a change in the shopping habits of consumers. Shoppers seem to be making more 'efficient' trips to the shops, which would be in line with time-strapped lifestyles and increasing transport costs.

This said, a case for oversupply in the retail sector still remains. There has been a significant amount of retail development in the past decade, and the decline in foot count also points to the fact that growth in shoppers has not kept up with the growth in retail space.

Money spend per capita grew by 7.0% in 2011, beating an average inflation rate of 5.0% therefore registering real growth for the year. This further highlights the recent health of consumer spending in shopping centres.

Fig 3:
Foot count/m²/month – annual average

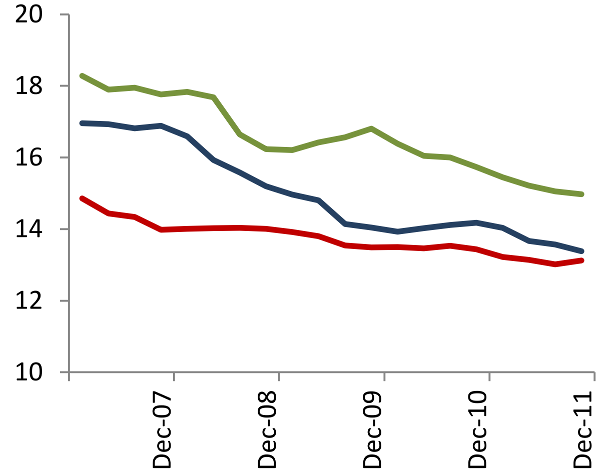
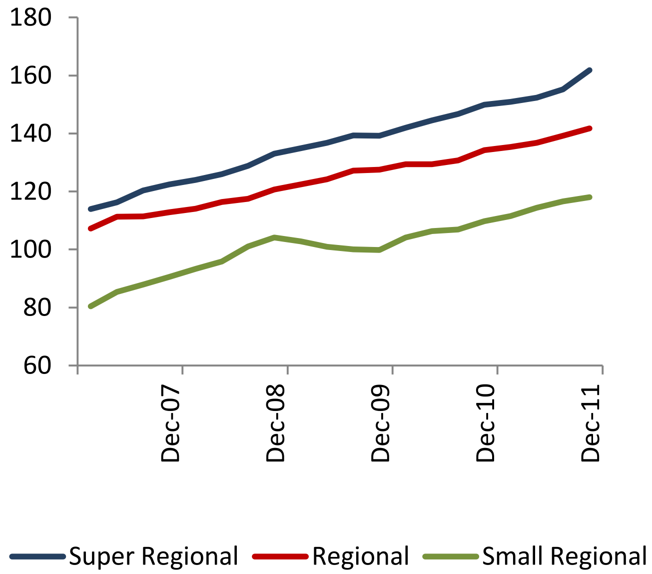


Fig 4:
Money spend per capita R – annual average



The cost of occupation – which is gross rental costs as a percentage of turnover – has improved marginally for most centres in 2011 in terms of year-on-year change, except super regionals which experienced an increase of 0.8%. Overall, cost of occupation remains flat and the divergence between the larger and smaller centre types continues, as illustrated in Fig 5.

As a result the cost of operating a shop in a regional or small regional centre is approximately 50% more than in a community or neighbourhood centre, while in a super regional centre this cost is almost double. While the retail sector has performed well in recent months, this is unlikely to last into 2012, and when trading conditions worsen tenants in larger centres may start to question whether their locations are worth the extra cost.

Fig 5:
Cost of occupation % – quarterly average

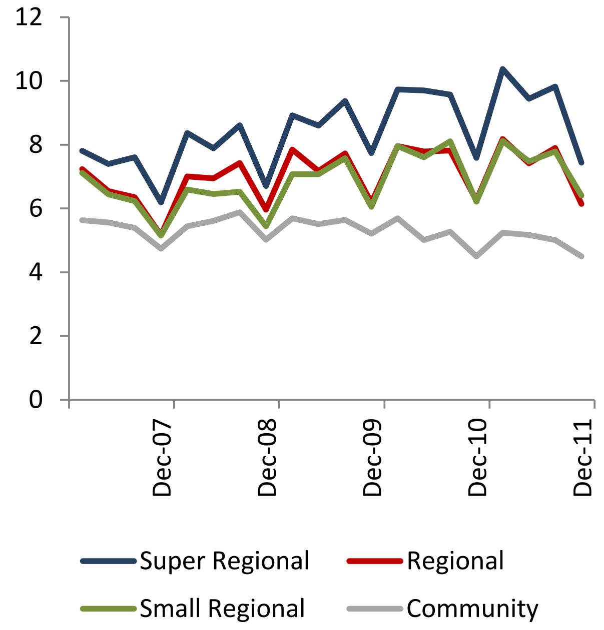


Table 1 below shows the tenant categories with the highest annual increase in trading density for the year to December 2011 compared to the year to December 2010. The continued, gradual improvement in discretionary spending can be seen as categories such as travel, luggage, jewellery and electronics post good improvements. However, a large amount of discretionary categories are also present in the bottom 5 which suggests trade conditions are still tough with consumers remaining wary of unnecessary spending.

Table 1:
Highest and lowest annual increase in trading density by tenant type

	Super Regional	***Regional***	***Small Regional***	***Community***
Top 5	Convenience Travel Luggage Electronic Speciality	Convenience Electronic Travel Food Service Jewellery	Jewellery Home Furnishings Luggage Department Stores Health & Beauty	Health & Beauty Food Service Eyewear Home Furnishings Jewellery
Bottom 5	Health & Beauty Books/Cards Sporting/Outdoor Entertainment Jewellery	Health & Beauty Luggage Eyewear Books/Cards Home Furnishings	Convenience Entertainment Electronic Books/Cards Travel	Books/Cards Convenience Department Stores Speciality Apparel

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ECONOMIC CONTEXT

Looking ahead, the Treasury has cut its growth forecast for 2012 from an initial 3.4% down to 2.7%. Consensus is that SA will not enter recession going forward but rather a period of weak growth, while global economic concerns and their impact on the local economy remain in the spotlight. Manufacturing and consumer spending, two key drivers of economic growth, are likely to experience a certain degree of stalling going into 2012. Manufacturing is particularly affected by the issues in the Eurozone, and weakening demand there, as it is the destination of 30% of our exports

This picture is only likely to change for the better if government delivers on its promise of significant infrastructure spending, as highlighted in the recent budget speech.

Consumer spending remains one of the most important sectors of the economy and is currently one of the strongest drivers of growth, although this trend is unlikely to be sustainable. While retails sales have been performing relatively well in recent months, a larger-than-expected slowdown in January is cause for concern and may indicate the start of a decline in spending.

While a bumper December and the inevitable hangover are partly to blame, rising inflation due mainly to food and energy costs is eroding disposable income and also playing a significant role. This coupled with limited job creation and low growth predicted for 2012 means that consumers will most likely be frugal at the shops, rather than spend big on discretionary items.

Table 2:
Economic indicators and impact on retail sector performance

	Previous year ***2010Q4***	*Previous quarter* ***2011Q3***	*Current quarter* ***2011Q4***	***Quarterly change***	***Annual change***
Consumer confidence index	14	4	5	▲	▼
Retail sales y/y	5.2	6.3	7.9	▲	▲
GDP growth y/y	3.0	3.0	2.9	▼	▼
Inflation y/y	3.5	5.7	6.1	▲	▲
HCE growth y/y	5.6	3.8	4.6	▲	▼
Unemployment %	25.2	25.0	23.9	▼	▼
Interest rates %	9.00	9.00	9.00	◀▶	◀▶

Source: FNB/BER, OMIGSA, SARB, StatsSA

Report by Sean Godoy and Jess Cleland.

Retail data is from the IPD Retail Digest Q4 2011. For more information, to purchase the IPD Retail Digest or join IPD's Retail Performance Benchmarking Service please contact Chele Moyo on 011 656 2115 or smoyo@ipdindex.co.za.

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IPD
T: 011 656 2115
F: 011 656 2797
sgodoy@ipdindex.co.za
www.ipd.com/southafrica

SAPOA
T: 011 883 0679
F: 011 883 0684
eventsmanager@sapoa.org.za
www.sapoa.org.za