



S A P O A

RESEARCH

RetailTrends
REPORT



An MSCI Brand
Report compiled by IPD

 Q3 2013:

SHOPPING CENTRE PERFORMANCE INDICATORS

2013 Q3 vs 2012 Q3	Super Regional	Regional	Small Regional	Community
Trading Density	▲	▲	▲	▲
Gross Rentals	▲	▲	▲	▲
Foot Count	▼	▲	▼	-
Money Spent per Capita	▲	▲	▲	-
Cost of Occupation	▲	▲	▲	▲
Vacancy	▲	▼	▼	▼

SUMMARY POINTS



The trading density results for the third quarter of 2013 show marginal increases across all centre types over the same quarter of the previous year. Weakening consumer confidence also contributed to the lower trading density growth rates.



Occupancy improved across all the sectors except super regional category which posted an increase in vacant space.



Gross rentals increased across all the shopping centre categories resulting in increased cost of occupation compared to the same quarter of the previous year.



Super regional and small regional shopping centres recorded marginal decrease in foot count over the same period whilst regional shopping centres were the only segment to record increase in foot count.

Retail sales growth declines as consumer confidence drop

Community centres continue to post impressive results, the segment registered the highest annualised quarterly trading density growth of 10.6%. Super regional and regional centres followed at 5.9% and 3.3% respectively. The least growth came from small regional and neighborhood centres registering trading density growth rates of 2.4% and -8.9% respectively. With an annual CPI growth rate of 6.0% as at September 2013, it therefore implies that all shopping centre segments except community shopping centres realised negative real trading density growth.

The increasing use of the online shopping technology is expected to exert more pressure on the retail trading density growth. The Q3 2013 results could be seen to signal a depressing retail sector outlook ahead underpinned by weak consumer demand. This is inline with the weakening consumer confidence and low retail sales growth.

In line with past trends, average gross rentals in this quarter increased across all the four retail sectors as compared to the same quarter in 2012. Compared to Q2 2013, community centres were the only sector to register rental growth rate above the September 2013 inflation rate of 6.0%, registering 6.7%. As was the case in Q2 2013, all other centres registered rental growth rates of below 4.0%.

FIGURE 1:
TRADING DENSITY R/M²/MONTH – QUARTERLY AVERAGE

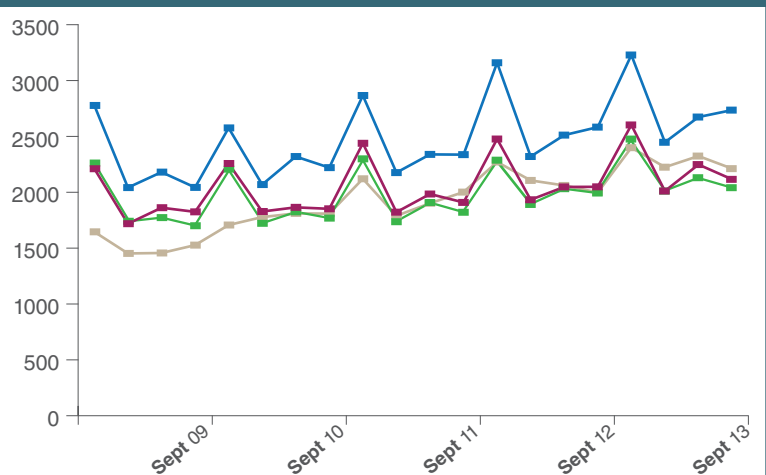
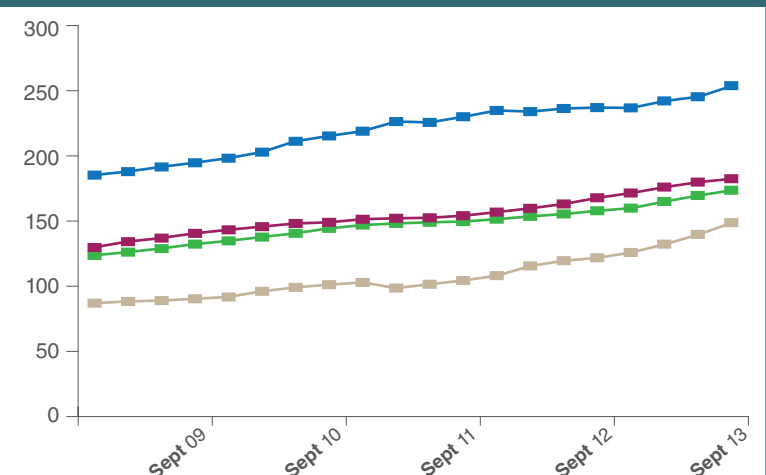


FIGURE 2:
GROSS RENTALS R/M²/MONTH – ANNUAL AVERAGE



— Super Regional — Regional
— Small Regional — Community

Reduced vacancy rates were recorded in the regional, small regional and community shopping centres compared to the last quarter, registering 2.5%, 2.1% and 1.5% respectively. The highest vacancy decline was recorded in the community shopping centres category, which also saw higher growth in the sale per square metre recorded in this segment in Q3 2013.

Super regional and neighborhood shopping centres continued to see increasing unoccupied space compared to Q2 2013, registering 3.4% and 5.2% respectively.

Regional centers were the only segment to register an increase in annualised average foot count growth rate of 2.8% compared to Q3 2012, together with increased money spent per visit resulting in increasing trading density. However, super regional centres registered a year on year foot count decline of -1.9% in Q3 2013 compared to the same quarter of the previous year. Small regional shopping centres also registered a decline in annual average foot count growth rate.

Compared to Q2 2013, the Super regional segment continued to post the second highest annual spend per capita, registering spend per capita growth of 2.5% outweighing the impact of declining foot count. Small regional centres registered the highest annual spend per capita growth of 3.1% whilst regional centres lag behind at 0.8%, showing negative real growth. Growing levels of consumer debt (the ratio of non mortgage debt to total household debt increased by 47% in Q3 2013) continue to raise the risk of further pressure on the sector once interest rates begin to increase.

FIGURE 3:
FOOT COUNT/M²/MONTH – ANNUAL AVERAGE

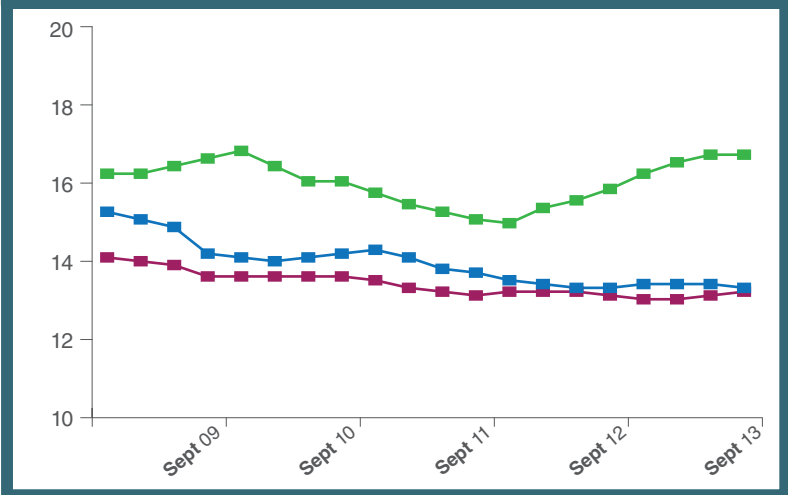
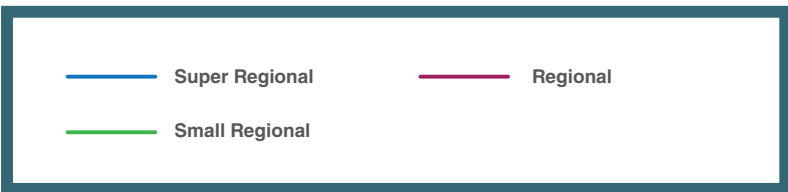
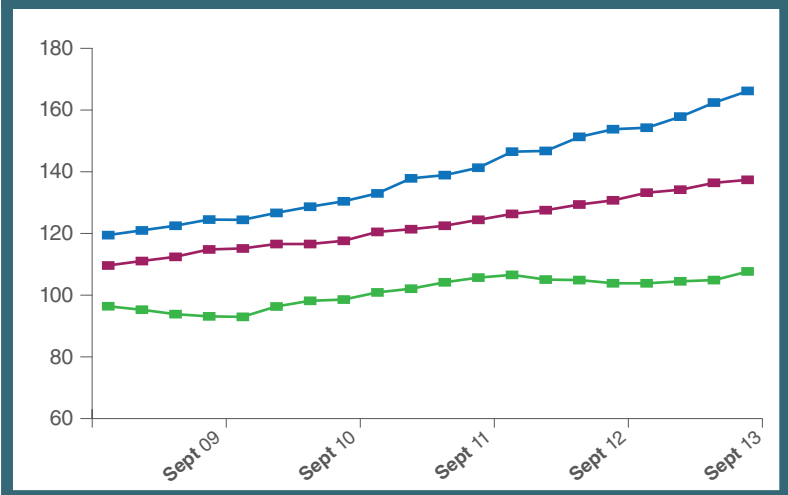


FIGURE 4:
MONEY SPEND PER CAPITA R – ANNUAL AVERAGE



On a quarterly basis, tenant cost of occupation increased across all the shopping centre segments with super regional shopping centres recording the highest tenant cost of occupation growth of 7.0%. Small regional and community shopping centres registered tenant cost of occupation growth of 6.5% and 6.0% respectively. Regional shopping center category was the only segment to record tenant cost of occupation growth below the September 2013 inflation rate.

The increase in the cost of occupation across all retail segments indicates that on average, gross rental costs are increasing at a faster rate than turnovers. Further, this trend also affects retail operators' profitability and sustainability.

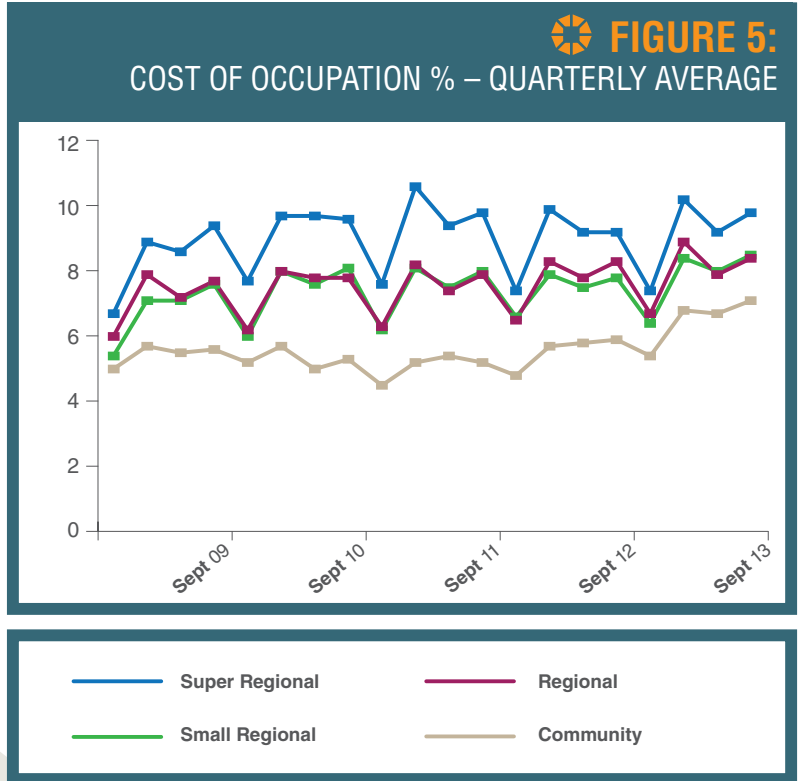


Table 1 below shows tenant categories with the highest and lowest annual trading density growth. In Q3 2013, top performing primary categories included Sporting/Outdoor, Jewellery and Luggage (lower trading density growth in small regionals). The lowest trading density growth in the super regional and small regional centre categories was registered in the food segment.

TABLE 1:
HIGHEST AND LOWEST ANNUAL INCREASE IN TRADING DENSITY BY TENANT TYPE

	Super Regional	Regional	Small Regional	Community
TOP 5	Luggage Jewellery Eyewear Sporting/Outdoor Convenience	Health & Beauty Speciality Sporting/Outdoor Jewellery Luggage	Travel Health & Beauty Convenience Jewellery Apparel	Convenience Sporting/Outdoor Food Jewellery Books/Cards
BOTTOM 5	Travel Food Health & Beauty Speciality Books/Cards	Travel Food Service Department Stores Electronic Home Furnishings	Food Speciality Department Stores Sporting/Outdoor Luggage	Speciality Health & Beauty Home Furnishings Department Stores Shoes

In the third quarter of 2013, retail sales decreased by 120bp compared to Q2 2013. The retail sales downward trend is in line with the waning consumer confidence which fell from 1.0% in Q2 2013 to -8.0% in Q3 2013. Compared to Q3 2012, retail sales growth fell by 260bp i.e. from 4.7% in 2012 to 2.1% in 2013. The reduced sales growth moved in tandem with declining household expenditure growth, and registered a marginal decrease of 20bp from 2.5% in Q2 2013 to 2.3% in Q3 2013.

The continued labour unrest, poor performing manufacturing sector and the weakening rand pose a threat to the retail sector recovery. Business confidence also plummeted as reflected by the 6 point drop in the Q3 2013 RMB/BER Business Confidence Index. We expect the retail sector to continue under pressure over the coming few months though the Christmas shopping is expected to cause a short term boost.

TABLE 2:
ECONOMIC INDICATORS AND IMPACT ON RETAIL SECTOR PERFORMANCE

	Previous Year 2012: Q3	Previous Quarter 2013: Q2	Current Quarter 2013: Q3	Quarterly Change	Annual Change
Consumer Confidence Index	-1	1	-8	▼	▼
Retail Sales y/y	4.7	3.3	2.1	▼	▼
GDP Growth y/y	2.2	2.3	1.8	▼	▼
Inflation y/y	5.3	5.5	6.0	▲	▲
Unemployment %	25.5	25.6	24.7	▼	▼
Interest Rates %	8.50	8.50	8.50	◀▶	◀▶

Source: FNB/BER, OMIGSA, SARB, StatsSA

TABLE 3:
SHOPPING CENTRE TYPE DEFINITIONS

	Size Band
Super Regional Shopping Centre	> 100,000 m ² in total rentable area
Regional Shopping Centre	50,000 - 100,000 m ² total rentable area
Small Regional Shopping Centre	25,000 - 50,000 m ² total rentable area
Community Shopping Centre	12,000 - 25,000 m ² total rentable area
Neighborhood Shopping Centre	5,000 - 12,000 m ² total rentable area