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RESEARCH

Retail Trends REPORT

IPD

An MSCI Brand

Report compiled by IPD

Q1 2014:
KEY FINDINGS

- For the year ending March 2014, the centres in the IPD Retail sample recorded an increase of 4.9% in annualised trading density (sales per square meter). In inflation-adjusted terms, this translates into marginally negative growth as consumer price inflation averaged just shy of 6% for the year.

- Retail vacancy rates remain low but has increased across all centres types, when compared to March 2013. Neighborhood centres has experienced the largest increase in vacancy rates as consumer spending comes under increased pressure.

- Gross rentals continue to grow faster than sales which has seen retailers' cost of occupancy increase. Cost of occupancy is currently the highest in the 10 year history of the series and is almost exclusively driven by higher administered costs.

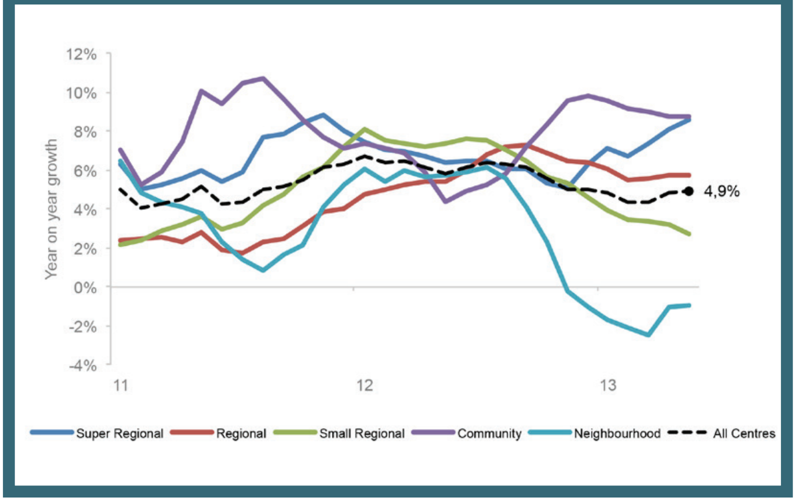
- Footcounts showed little change from a year before with the average number of shoppers visiting shopping centres unchanged from a year ago. However, there was an uptick in foot traffic in Regional centres over the last quarter.

SALES PERFORMANCE

For the year ending March 2014, the centres in the IPD Retail sample recorded an increase of 4.9% in annualised trading density (sales per square meter). In real terms (inflation-adjusted) this translates into marginally negative growth.

There continues to be a divergence in performance between the different centre types with Super Regional and Community centres driving growth in the period under review while Small Regional and Neighbourhood centres underperformed. (Figure 1a)

FIGURE 1 A:
ANNUALISED TRADING DENSITY GROWTH



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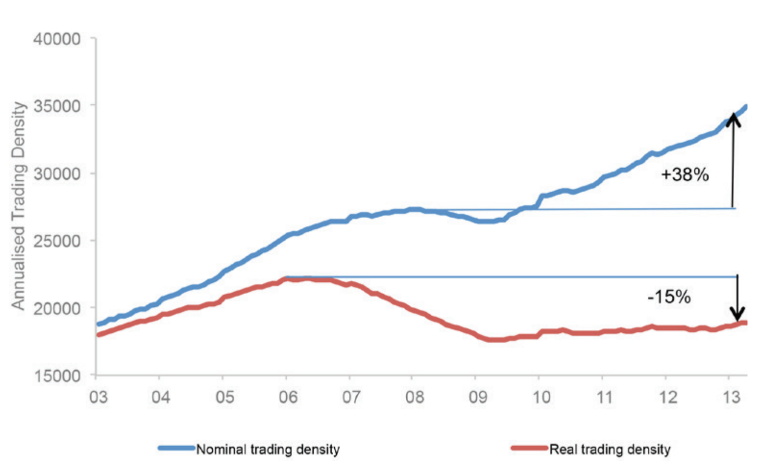
Regionally dominant centres has a history of stable trading performance through the cycle – aided by nodal dominance, a larger variety of categories & tenants and a larger boost from seasonal trade. In nominal terms, Super Regional trading densities are currently 38% higher than it was in 2007.

However, this needs to be put into perspective as in real terms, trading densities are currently 15% lower than it was in 2007. This means that on average, retailers are selling a lower volume of product compared to the height of the consumer boom. This impacts tenant margins and landlord's potential for rental upside through potential price markdowns and higher inventory holdings costs.

FIGURE 1 B:
SUPER REGIONAL TRADING DENSITIES - NOMINAL VS. REAL



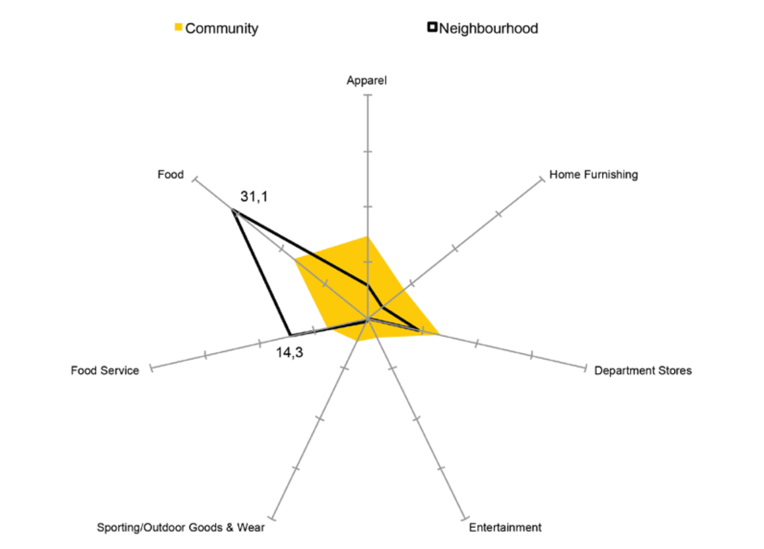
The outperformance of Community centres (12,000-25,000sqm) could be seen as somewhat surprising but the reason seems to be two fold. Firstly, a certain degree of outperformance can be attributed to the currently tough economic environment where a combination of high fuel prices and less disposable income could mean that consumers are choosing to shop closer to home. An additional advantage of Community centres in the current environment is that parking charges are lower relative to larger centres.

Secondly, a relative overweight position in outperforming categories also contributed positively to the trading performance of Community centres. The categories driving the bulk of the growth was Apparel and Sporting Goods/Wear. Both of these categories have delivered above average trading density growth over the last year which has underpinned Community centre performance.

These two merchandise categories also seems to be one of the factors behind the relative underperformance of Neighbourhood centres relative to Community centres since the Community retail centre segment has a 19.3% average exposure to these two categories while that of Neighbourhood centres is significantly lower at 6.7%.

Another factor potentially contributing to the underperformance of Neighborhood centres in the current consumer environment is that these centres offer shoppers a less diverse mix of tenants across fewer merchandise categories. The main reason behind this is that Food and Food Service retailers occupy almost half of Neighborhood centre floorarea – compared to 25% in Community centres. (Figure 2)

FIGURE 2:
COMPOSITION OF COMMUNITY VS NEIGHBOURHOOD CENTRES
% OF GROSS LETTABLE AREA



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Retailer cost of occupancy

Retailer's cost of occupancy, measured as gross rental as a % of sales, continued to increase over the past year and at March stood at 7.7% - marginally up from December's mark of 7.6% as gross rentals continue to increase at a faster rate than sales. (Figures 3 & 4) At the height of the '09 recession, this ratio was recorded at 7.2% which emphasises the impact of rising administered prices.

FIGURE 3:
RETAILERS' COST OF OCCUPANCY
GROSS RENT AS A % OF SALES

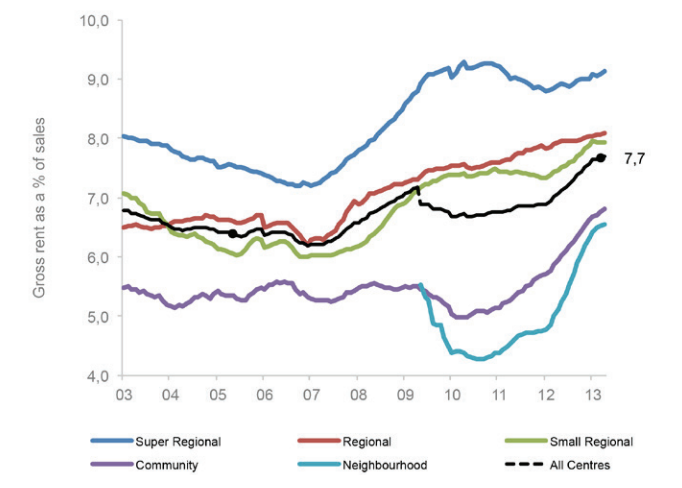
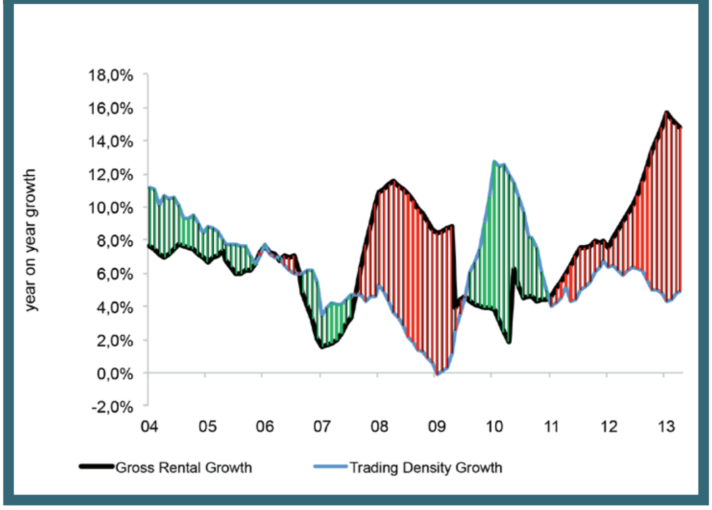


FIGURE 4:
GROSS RENTALS GROWING AT A FASTER RATE THAN SALES

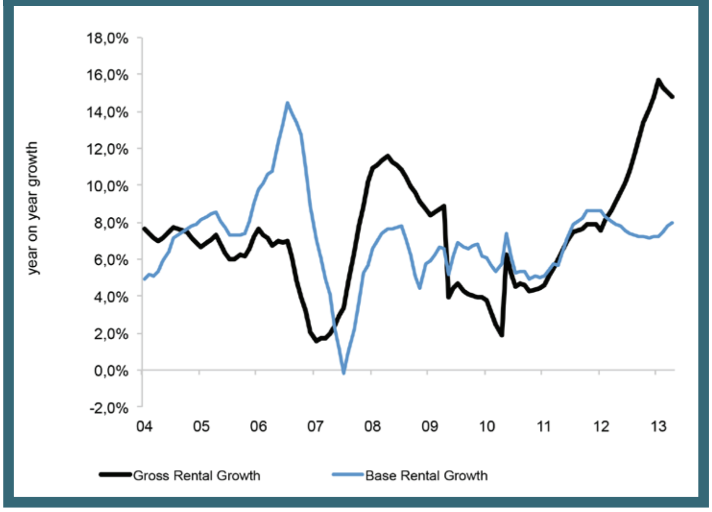


The impact of rising tenant operating costs have been most pronounced in Community & Neighborhood centres where gross rent to sales ratios in these segments are currently significantly higher than 2009 levels.

Super Regional Centres is the only segment which currently has a lower gross rent to sales ratio compared to the highs of 2010, underlining its defensiveness in the current consumer environment.

The pace at which administered prices have been increasing is underlined by the difference in growth rate between base and gross rental. The divergence between gross and base rental has been especially pronounced over the last year which saw gross rentals grow at above 13% while base rentals have been increasing at between 7 & 8% (Figure 5)

FIGURE 5:
GROSS RENTALS DRIVEN BY FIXED TENANT RECOVERIES



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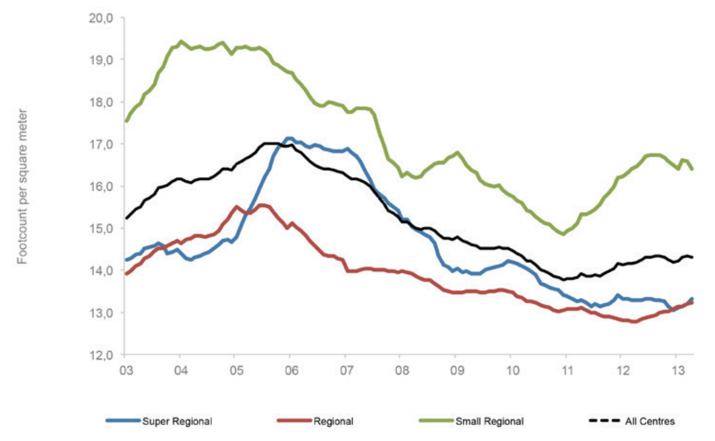
Footcount & spend per head

Footcounts recorded during the quarter ending March were largely unchanged compared to a year before, symptomatic of the currently tough trading environment. In conjunction with a higher nominal trading density, this results in a higher spend per head compared to a year before.

The increased spend per head could be attributed to shoppers visiting centres less often but lumping purchases together in order to save on travel costs.

All centres larger than 25,000sqm has experienced a rebound in foot traffic since the recession of 2009. However, current levels of foot traffic per sqm is still significantly off the highs of 2004 when real economic growth was above 4% (Figure 6)

FIGURE 6:
FOOTCOUNTS REBOUNDED BUT OFF HIGHS
FOOTCOUNT PER SQUARE METER

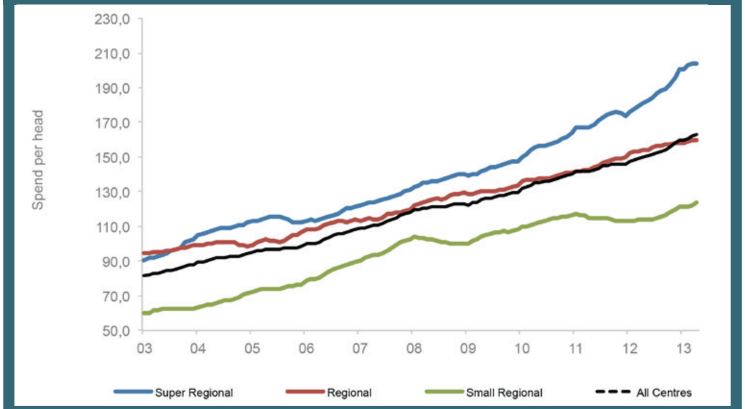


The average spend per head across all centre types increased by 8.7% for the year ending March 2014. The largest increase in the amount spent per visit was recorded for Super Regional centres at 12.8%. Small Regional centres recorded an increased spend per head of 8.5% while Regional centres only showed growth of 3.9% on the back of a 3.5% increase in footcount. (Figure 7)

Annualised spend per head for all centres larger than 25,000sqm currently averages R162/visit – slightly up from December's annualized level of R160/visit.

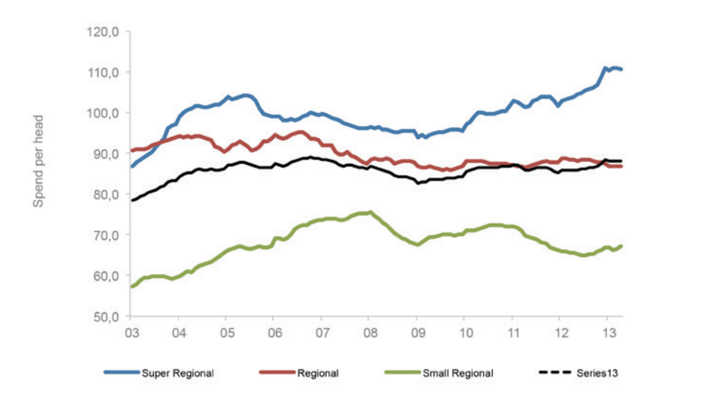
Super Regional centres average an annualized R204/visit while Regionals and Small Regionals average R160 and R124/visit respectively.

FIGURE 7 A:
SPEND PER HEAD



Of the three larger retail formats, Super Regional centres is the only segment where real spend per head is currently above 2006/'07 levels (Fig 7b) – however this is largely as a result of a lower footcount, as opposed to a higher trading density. Real spend per head in Regional and Small Regional centres are currently around 9% off its highs.

FIGURE 7 B:
REAL SPEND PER HEAD



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Merchandise category trends

Over the last 12-18 months there's been a clear dislocation in the performance of different merchandise categories. Certain categories have performed very well while others have continued to lag.

Among the larger merchandise categories that have outperformed is Sporting & Outdoor goods, Unisex Wear, Mini Department Stores, Food Service and Women's Wear.

Categories that have lagged include home furnishings, travel stores, toy stores and department stores - retailers selling mainly durable goods and big ticket (arguably non-essential) items. (Table 1)

TABLE 1:
PERFORMANCE OF SELECTED MERCHANDISE CATEGORIES
ANNUALISED TRADING DENSITY GROWTH (% Y/Y)

Merchandise Category	Growth (y/y %)
Sporting/Outdoor goods & wear	19,6%
Unisex Wear	12,7%
Mini Department Stores	8,8%
Food Service	8,0%
Womens Wear	7,7%
Grocery/Supermarket	6,9%
Movies	6,8%
Department Stores	5,7%
Antiques/Décor	2,5%
Junior Department Stores	0,4%
Family Entertainment Centres	-4,5%
Food Speciality	-4,9%
Toys	-19,4%
Travel Stores	-19,6%

What's important to note is that category performance has not been consistent across the different retail segments. Home Furnishings, for example, has been an underperforming category over the last year or two but there's been a clear difference between the performance of outlets in the different retail formats. Furniture stores in Super Regional centres grew their trading density at 13.0% for the year ending March while stores in Neighborhood and Community centres saw density going backwards (Table 2)

This trend is reversed in other categories where the smaller retail segments outperformed the larger centres. A possible explanation for this is that the convenience & value-orientated tenant mix of smaller retail centres are finding resonance with consumers in the current macroeconomic environment.

TABLE 2:
PERFORMANCE OF CATEGORIES IN DIFFERENT RETAIL FORMATS
ANNUALISED TRADING DENSITY GROWTH (% Y/Y)

Merchandise Category	Centres < 25k sqm	Centres > 25k sqm
Mini Department Stores	20,8%	4,8%
Grocery/Supermarket	16,4%	0,7%
Books/Cards/Stationery	17,4%	2,7%
Unisex Wear	20,9%	7,2%
Food Service	12,6%	4,9%
Health & Beauty	5,4%	14,2%
Antiques/Décor	-7,1%	8,9%

SHOPPING CENTRE TYPE DEFINITIONS YEAR ON YEAR, %

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

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