RESEARCH
Retail Trends Report
Key Research Findings

- South African shopping centre trading performance as measured by the MSCI South Africa Quarterly Retail Trading Density Index, recorded another quarter of improving growth.

- Trading density growth (sales per square meter; annualised), came in at +4.3% year on year (y/y) to September 2019 in current price terms—up from a revised +4.1% recorded for the year to June 2019.

- The index is based on data collected by MSCI Real Estate’s Retail Performance Benchmarking Service which quantifies sales performance as well as other key retail performance metrics across 24 merchandise categories in more than 100 retail centres, covering just shy of 5 million square meters.

- The 4.3% y/y increase in trading density was a function of a positive 5.5% sales growth & a 1.2% increase in the amount of reported trading area (i.e. a dilutionary impact).

- Trading density growth of +4.3% comprised a 5.5% growth in sales while reported trading area was up 1.2% (i.e. a dilutionary impact).

- Looking at it from another perspective, trading density growth was a function of spend per head increasing by 1.7% while aggregate footcount/sqm grew by 2.5%.

- Footcount – expressed per square meter – has now grown every month since April 2019.

- However, of concern will be the fact that Spend per Head growth has dipped to its lowest level since the end of 2015.

- So, shoppers are starting to visit malls more frequently but critically are not maintaining their spend per visit - possibly spreading out roughly the same level of spend over more trips.

- Despite increasing at an aggregate level, annualised trading density growth has been mainly driven by the smaller retail formats. The neighbourhood retail segment in particular has been showing strong growth in its trading density over the past two quarters (a like-for-like trading density growth of 9.0% y/y).

- The three larger retail formats have been growing their sales per square meter (or trading density) at around 2% - around half the current official inflation rate.

- Regional shopping centres, on average, are seemingly having a tough time of it. The segment has not seen trading density growth above 2% since early 2017 highlighting the difficulty these mid-tier centres face. Many of them operate in the same catchment areas as larger malls with more tenants and longer trading hours as well as smaller, convenience centres.

- Among the five largest merchandise categories, Electronics stores outperformed with an annualised trading density growth of 8.3% for the year ended September 2019. The Food category (mostly comprising Grocery/Supermarket tenants) and Department Stores also reported ATD growths in excess of 6.5% y/y.

- Retailer’s cost of occupancy, as measured by the ratio of gross rental to sales, continued its upward trend with a 10bp y/y increase to September 2019. This was the result of a 5.5% growth in overall sales and a 6.1% y/y increase in aggregate gross rental.

- On a segment level, Super Regional centre’s cost of occupancy remain significantly higher than the other segments. As at September 2019, Super Regional tenants pay R11.40 towards their gross rental for every R100 in sales.
Headline Performance

South African shopping centre trading performance as measured by the MSCI South Africa Quarterly Retail Trading Density Index, recorded another quarter of improving growth. The rate of growth has slowed however. Trading density growth (sales per square meter; annualised), came in at +4.3% year on year (y/y) to September 2019 in current price terms– up from a revised +4.1% recorded for the year to June 2019 (Fig 1).

The index is based on data collected by MSCI Real Estate’s Retail Performance Benchmarking Service which quantifies sales performance as well as other key retail performance metrics across 24 merchandise categories in more than 100 retail centres, covering just shy of 5 million square meters.

The 4.3% y/y increase in trading density was a function of a positive 5.5% sales growth & a 1.2% increase in the amount of reported trading area (i.e. a dilutionary impact).

The sales growth figure of 5.5% was higher than StatsSA’s nominal retail sales growth of 3.6% y/y for the year ending September 2019 (annual growth of Oct ’18-Sep ’19 on the same period a year before). This continues the trend of mall-based retailers outperforming the broader market and highlights the ability of shopping centres to grow its share of wallet in a challenging operating environment.
Key economic drivers for the retail sector

Fig 2: Retail sector – macroeconomic fundamentals
2003 up to & including latest available

Real GDP Growth
- Real GDP growth q/q SAAR - Real GDP growth y/y

Consumer Price Inflation (Core)
Excl. food, non-alcoholic beverages and petrol

Final consumption expenditure by households

Ratio of debt-service cost to disposable income

Source: StatsSA; South African Reserve Bank
Drivers of trading density growth

As alluded to earlier in the report, trading density growth of +4.3% comprised a 5.5% growth in sales while reported trading area was up 1.2% (i.e. a dilutionary impact). Looking at it from another perspective, trading density growth was a function of spend per head increasing by 1.7% while aggregate footcount/sqm grew by 2.5% (Fig 3).

Footcount – expressed per square meter – has now grown every month since April 2019 (Fig 4). However, of concern will be the fact that Spend per Head growth has dipped to its lowest level since the end of 2015. So, shoppers are starting to visit malls more frequently but critically are not maintaining their spend per visit - possibly spreading out roughly the same level of spend over more trips.

Over the long term, the growth in the amount spent per visitor has been the primary driver of trading density growth and a further decline in this figure may see overall trading density decline impacting tenant’s cost of occupancy and consequently landlord’s net income growth.

**Fig 3: Trading density growth attribution – September 2019**

*Weighted contribution to Trading Density Growth*

![Diagram showing trading density growth attribution](image)

- Trading density growth: +4.3%
- Impact of change in trading area: -1.2%
- Sales growth: +5.5%
- Footcount growth/m²: +2.5%
- Spend per Head growth: +1.7%

*Source: MSCI Real Estate; Note: numbers may not add up due to rounding. This graphic illustrates the weighted contribution to Trading Density Growth of changes in Sales, Trading Area, Number of Shoppers and Spend per Head*

**Fig 4: Spend per Head growth at a 4 year low, Footcount growth positive since April 2019**

*Trading density growth requires growth in both components*

![Graph showing spend per head growth over time](image)

*Source: MSCI Real Estate*
Sales Performance

The South African economy, barely growing, remains constrained by high rates of unemployment and declining per-capita incomes. Consumer confidence also recently fell back to 2017 levels as the outlook for the economy dimmed amid continued concern around the financial woes of Eskom. Indebted consumers are also unlikely to benefit from interest rate cuts anytime soon as the SARB maintains a cautious stance amid increasing fiscal risks as well as currency and global financial market volatility.

Notwithstanding, annualised trading density growth as measured by the MSCI South Africa Quarterly Retail Trading Density Index, has now been positive since the second quarter of 2018 and crucially, has continued to accelerate. Looking only at the headline figures, however, can be deceiving.

Despite increasing at an aggregate level, annualised trading density growth has been mainly driven by the smaller retail formats (Fig 5). The neighbourhood retail segment in particular has been showing strong growth in its trading density over the past two quarters (a like-for-like trading density growth of 9.0% y/y).

The three larger retail formats have been growing their sales per square meter (or trading density) at around 2% - around half the current official inflation rate. The Small Regional shopping centre segment saw a bit of an uplift in its annualised trading density growth after bottoming out below zero earlier in 2019. Regional shopping centres, on average, are seemingly having a tough time of it. The segment has not seen trading density growth above 2% since early 2017 highlighting the difficulty these mid-tier centres face. Many of them operate in the same catchment areas as larger malls with more tenants and longer trading hours as well as smaller, convenience centres.

Among the five largest merchandise categories, Electronics stores outperformed with an annualised trading density growth of 8.3% for the year ended September 2019. The Food category (mostly comprising Grocery/Supermarket tenants) and Department Stores also reported ATD growths in excess of 6.5% y/y.
Black Friday: which categories stand to benefit the most?

Black Friday is a fairly new phenomenon in South Africa and has increasingly come to prominence in the past 5 years. By analysing monthly trading data from the MSCI Retail Performance Benchmarking Service we look at which merchandise categories stand to benefit most from an increase in November trade.

Figure 6 compares November to October trading densities – across retail segments & merchandise categories. Since 2015, November sales/sqm has increased its spread relative to October sales every year.

Super Regional centres have seen the largest impact on November sales relative to the October level. As at November 2018, the gap has opened up to over 23% - up from 9% in 2015 and 12% in 2016. Community centres has a relatively smaller impact but November trading density increased to above 10% compared to October levels.

On a merchandise category level, Department Stores, Apparel, Luggage and Electronics were among the categories that have benefitted the most from Black Friday sales when comparing 2018 November sales figures to 2012.

Sportswear and Outdoor goods has also seen a significant increase in its November/October sales spread. In 2012, Super Regional based Sportswear retailers’ November trading density was only 0.8% above its October mark. By 2018, this spread had grown to above 36% as retailers channel their marketing efforts towards Black Friday promotions. A similar trend was observed in Regional and Small Regional centres where the Nov/Oct spread has also grown beyond 25%.

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**Fig 6: Comparing November to October – across segments & merchandise categories**

% difference in monthly trading density

<table>
<thead>
<tr>
<th>Segment</th>
<th>November trading density (% difference)</th>
<th>Categories benefitting most from Black Friday - November vs. October monthly trading density comparing November 2012 to November 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2018</td>
</tr>
<tr>
<td></td>
<td>Super Regional</td>
<td>Regional</td>
</tr>
<tr>
<td><strong>Merchandise Category</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luggage</td>
<td>13.5%</td>
<td>21.4%</td>
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<tr>
<td>Sportswear and Outdoor</td>
<td>0.8%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Eyewear &amp; Optometrists</td>
<td>18.0%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>21.7%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Apparel</td>
<td>15.2%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Accessories, Jewellery &amp; Watch</td>
<td>26.7%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Electronics</td>
<td>11.2%</td>
<td>2.6%</td>
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<tr>
<td>Speciality</td>
<td>16.3%</td>
<td>11.4%</td>
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<tr>
<td>Services</td>
<td>-4.2%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Books/Cards/Stationery</td>
<td>14.4%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Food</td>
<td>25.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Homeeware, Furniture &amp; Interior</td>
<td>6.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Food Service</td>
<td>10.0%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Health and Beauty</td>
<td>2.2%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>
Retailer cost of Occupancy

Retailer’s cost of occupancy, as measured by the ratio of gross rental to sales, continued its upward trend with a 10bp y/y increase to September 2019. This was the result of a 5.5% growth in overall sales and a 6.1% y/y increase in aggregate gross rental.

On a segment level, Super Regional centre’s cost of occupancy remain significantly higher than the other segments. As at September 2019, Super Regional tenants pay R11.40 towards their gross rental for every R100 in sales, followed by the Regional and Small Regional segments at R9.10 and R8.60 respectively (Fig 7).

The Super Regional and Small Regional segments in particular has seen a significant increase in tenant occupancy costs since 2016. Super Regional tenants, on average, now pay R2.50 more in gross rental for every R100 of sales and Small Regional tenants R1.70 more.

The Super Regional segment also saw the largest year on year increase in its gross rent to sales ratio of 30bps – i.e. an extra 30 cents of gross rental per R100 of sales.

Neighbourhood retail was the only segment that saw its cost of occupancy improve on a year over year basis – a 20bp improvement to 5.3%. Cost of occupancy in the smaller retail formats remain significantly lower than that of larger malls and are now well below 2016 levels as a result of an improved occupancy rate.
Retail Vacancy Rates

The vacancy rate of the 100+ shopping centres forming part of the MSCI Retail Trading Density Index was recorded at 4.4% at September 2019, 10bps up on a quarter ago and above the long term average of 2.9%.

On a segment level, the highest vacancy rates are in the Neighbourhood and Small Regional shopping centre segments at 5.5% and 4.9% respectively. Following closely is the Super Regional segment with a vacancy rate of 4.7% (Fig 8)

It's important to maintain a sense of scale when comparing the different retail segments. A vacancy rate of 5% in a typical Super Regional Centre equates to around 7,000sqm of empty store space which is larger than some of the Neighbourhood centres in the sample.

Since mid-2018, the vacancy rate of the Super Regional segments is down 120bps while that of the Small Regional segment is up 110bps. While difficult to prove, it is not impossible that some Small Regional tenants have relocated to Super Regional premises given its higher visitor numbers and longer trading hours.

In the context of a 40,000sqm Small Regional centre, 110bps works out to 440sqm of additional vacancy compared to a year ago, resulting in additional costs relating to reinstatement and TI, letting and administration as well as lost rental within, and possibly beyond the initial beneficial occupation periods.

Fig 8: Super Regional vacancy rate down since mid-2018, other segments up

![Graph showing vacancy rates for different segments since mid-2018]
About the Sample

The IPD Retail sample consists of around 100 shopping centres across all geographies & centre types owned by listed real estate investment trusts, life & pension funds as well as private property funds.

The full quarterly results from 2003 onwards are available for 24 merchandise categories across 5 retail formats – from super regional down to neighbourhood centres. To subscribe to this quarterly publication please contact realestate@msci.com

SHOPPING CENTRE DEFINITION TYPES

<table>
<thead>
<tr>
<th>Centre Type</th>
<th>Area Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super Regional shopping centre</td>
<td>&gt; 100,000sqm</td>
</tr>
<tr>
<td>Regional shopping centre</td>
<td>50,000-100,000sqm</td>
</tr>
<tr>
<td>Small Regional shopping centre</td>
<td>25,000-50,000sqm</td>
</tr>
<tr>
<td>Community shopping centre</td>
<td>12,000-25,000sqm</td>
</tr>
<tr>
<td>Neighbourhood shopping centre</td>
<td>5,000-12,000sqm</td>
</tr>
</tbody>
</table>

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