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 muted (albeit positive) growth in what is now a uniquely challenging & fluid operating environment.

- Shopping centre performance during March was directly affected by the state of disaster and subsequent national lockdown while the full effect of the lockdown will be visible in next quarter’s results.

- Prior to the Covid-19 pandemic, the South African economy was already in a fragile state. As the full effect of the shock starts filtering through economy, unemployment and business confidence could continue to take further strain which will impact disposable income growth and consequently, retail sales growth. While a lower interest rate will provide some relief, expected increases in petrol price and potential loadshedding could more than offset the benefit.

- While the current reporting period only saw a limited impact on topline growth, the next period could look totally different as most retailers will only trade for around half the quarter.

- Notwithstanding the changing environment, trading density growth, came in at +2.8% year on year (y/y) to March 2020 in current price terms

- Note: Previously reported on an equally-weighted basis across the underlying segments to offset segment bias, the Trading Density Index will in future also be reported on a GLA weighted basis.

- Trading density growth of +2.8% comprised a 3.5% growth in sales while reported trading area was up 0.7% (i.e. a dilutionary impact). Looking at it from another perspective, trading density growth was a function of spend per head increasing by 1.8% while footcount grew by 0.9%.

- Perhaps surprisingly, spend per head did not grow significantly in March 2020. This suggests that malls recorded roughly the same visitors and overall spend in March 2020 as in Feb 2020. However, the type of goods and services consumers chose to spend their money on changed significantly given the unique circumstances.

- Over the long term, the growth in the amount spent per visitor has been the primary driver of trading density growth. Looking ahead, a decline in both these measures can be expected in April 2020 as the country’s malls entered a period of severely constricted trade under level 5 of the national lockdown. If that is the case, it will be the first time since the index’s inception in 2003 that both measures decline at the same time.

- The state of disaster which was announced on the 15th of March and the subsequent national lockdown which commenced on the 26th of March had a significant impact on the type of goods and services procured. Only two categories saw positive month on month growth across all centre formats, Food retailers and Health & Beauty. The food category in particular appears to have benefited from bulk buying pre-lockdown as sales increased by ~20%+ across all centre formats. The Health & Beauty category, driven by pharmacies, also showed strong growth with smaller centres outperforming.
Headline Performance

South African shopping centre trading performance as measured by the MSCI South Africa Quarterly Retail Trading Density Index, recorded another quarter of positive growth in what is now a uniquely challenging & fluid operating environment. Shopping centre performance during March was directly affected by the state of disaster and subsequent national lockdown while the full effect of the lockdown will be visible in next quarter’s results.

Notwithstanding the changing environment, trading density growth (sales per square meter; annualised), came in at +2.8% year on year (y/y) to March 2020 in current price terms—stable on the revised +2.9% recorded for the year to December 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.

Previously reported on an equally-weighted basis across the underlying segments to offset segment bias, the Trading Density Index will in future also be reported on a GLA weighted basis. The graphic below shows both the series’ history going back to the mid 2000’s. While the series’ are closely correlated over the period they visibly dislocate during times of market stress as the performance of the underlying property segments diverge. During the Global Financial Crisis of 2008-09 and more recently from 2019, convenience centres have led the charge from a growth perspective while trading densities in large format centres have held firm – trending broadly inline with StatsSA retail sales growth.
Key economic drivers for the retail sector

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

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

Consumer Price Inflation
Total; All Urban Areas

Final consumption expenditure by households

Household debt to disposable income of households

Ratio of debt-service cost to disposable income

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

Trading density growth of +2.8% comprised a 3.5% growth in sales while reported trading area was up 0.7% (i.e. a dilutionary impact). Looking at it from another perspective, trading density growth was a function of spend per head increasing by 1.8% while aggregate footcount/sqm grew by 0.9%.

Footcount per square meter has grown at a positive rate since July 2019 and while growth in March 2020 remained positive it slowed on an annual basis as a direct result of the state of disaster which was announced on the 15th of March. This was followed by the national lockdown which commenced on the 26th of March.

Perhaps surprisingly, spend per head did not grow significantly in March 2020. On a year-on-year basis the measure grew at 1.8% which was in line with the previous two months of the quarter. This suggests that malls recorded roughly the same visitors and overall spend in March 2020 as in Feb 2020. However, the type of goods and services consumers chose to spend their money on changed significantly given the unique circumstances. The next section analyses the performance of the underlying merchandise categories.

Over the long term, the growth in the amount spent per visitor has been the primary driver of trading density growth. Looking ahead, a decline in both these measures can be expected in April 2020 as the country’s malls entered a period of severely constricted trade under level 5 of the national lockdown. If that is the case, it will be the first time since the index’s inception in 2003 that both measures decline at the same time. During the latter parts of March and into April, e-commerce & grocery delivery services added another dimension which has the potential to dilute the trading density of “brick and mortar” retail.

Trading density growth attribution – March 2020

<table>
<thead>
<tr>
<th>Measure</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading density growth</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Impact of change in trading area</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Sales growth</td>
<td>+3.5%</td>
</tr>
<tr>
<td>Footcount growth/m²</td>
<td>+0.9%</td>
</tr>
<tr>
<td>Spend per Head growth</td>
<td>+1.8%</td>
</tr>
</tbody>
</table>

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.

Spend per Head vs. Footcount

Trading density growth requires growth in both components.

Source: MSCI Real Estate.
Sales Performance

Prior to the Covid-19 pandemic, the South African economy was already in a fragile state. As the full effect of the shock starts filtering through economy, unemployment and business confidence could continue to take further strain which will impact disposable income growth and consequently, retail sales growth. While a lower interest rate will provide some relief, expected increases in petrol price and potential loadshedding could more than offset the benefit.

While the current reporting period only saw a limited impact on topline growth, the next period could look totally different as most retailers will only trade for around half the quarter. That said, some categories will remain inactive at least until the end of May- sit-down restaurants and bottle stores being prime examples.

Overall, the trading density for March 2020 increased by 2.8% year-on-year. However, looking only at the headline figures in isolation can be deceiving. At an aggregate level, annualised trading density growth has been mainly driven by the smaller retail formats which have benefitted as shoppers favour convenience centres for an increasing proportion of their spend.

Excluding Community and Neighbourhood centres drops the overall growth to below 1%. The three larger retail formats haven’t seen their sales per square meter grow faster than inflation since 2016. Super regional and regional shopping centres both saw their density growth come off.

Among the five largest merchandise categories, Food and Electronics stores continued to perform well with annualised trading density growths exceeding 6% for the year ended March 2020. The apparel category underperformed with a growth of 1.2% - a figure which may dip into negative territory in Q2.
Food & Health & Beauty shine pre Lockdown

As noted earlier in the report, the overall trading density growth of 2.8% for March 2020 was in line with the figure recorded for December. In the same vein, roughly the same growth in the number of visitors and overall spend was recorded for March when compared to December – as well as to February. However, things begin to change when we start looking at the underlying merchandise categories.

The state of disaster which was announced on the 15th of March and the subsequent national lockdown which commenced on the 26th of March had a significant impact on the type of goods and services procured. The table below compares the monthly trading density for March 2020 against Feb 2020 and March 2019.

Only two categories saw positive month on month growth across all centre formats, Food retailers and Health & Beauty. The food category in particular appears to have benefited from bulk buying pre-lockdown as sales increased by ~20%+ across all centre formats. The Health & Beauty category, driven by pharmacies, also showed strong growth with smaller centres outperforming.

### Monthly trading density for March 2020

<table>
<thead>
<tr>
<th>Merchandise Category</th>
<th>Month on month % change to March 2020</th>
<th>Year on year % change to March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Super Regional</td>
<td>Regional</td>
</tr>
<tr>
<td>Food</td>
<td>20.1%</td>
<td>21.9%</td>
</tr>
<tr>
<td>Food Service</td>
<td>34.7%</td>
<td>32.0%</td>
</tr>
<tr>
<td>Health and Beauty</td>
<td>6.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Homeware, Furniture &amp; Interior</td>
<td>21.8%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Luggage</td>
<td>-39.9%</td>
<td>-28.8%</td>
</tr>
<tr>
<td>Services</td>
<td>-22.2%</td>
<td>-18.3%</td>
</tr>
<tr>
<td>Specialty</td>
<td>14.6%</td>
<td>-19.8%</td>
</tr>
<tr>
<td>Sportswear and Outdoor</td>
<td>-27.4%</td>
<td>-16.8%</td>
</tr>
</tbody>
</table>
Retailer’s cost of occupancy, defined as the ratio of gross rental to sales, continued its upward trend as rental growth marginally outpaced sales growth. An increase of 10bp y/y to March 2020 brings the ratio to 8.04% across the 100+ measured centres as a gross rental growth of 6.2% exceeded the 3.5% sales growth.

On a segment level, Super Regional centre’s cost of occupancy is currently at an all-time high and increased more than the other segments. As at March 2020, Super Regional tenants pay R11.89 towards their gross rental for every R100 in sales, followed by the Regional and Small Regional segments at R9.14 and R8.67 respectively.

The Super Regional and Small Regional segments in particular has seen a significant increase in tenant occupancy costs since 2016. At the same time, the smaller format retail segments saw an improvement as a result of an improved occupancy rate and inflation-plus sales growth. Neighbourhood and Community retail centres saw their cost of occupancy improve on a year over year basis – a 20bp and 10bp improvement respectively.

The growing spread in the occupancy cost between large and smaller format retail poses some interesting questions to occupiers regarding their future leasing decisions - especially in the context of a post-Covid world. What is the right balance of large to small format retail? Which retail format is going to have the best return on investment? Is segment becoming a more important factor than location – assuming the same catchment area? Will long trading hours matter more in a world now conscious of social distancing?
Retail Vacancy Rates

The average vacancy rate of the 100+ shopping centres forming part of the MSCI Retail Trading Density Index was recorded at 4.8% at March 2020, 10bps up on the previous quarter.

On a segment level, the lowest rate of vacancy is in the Regional shopping centre segment at 3.2%. This may seem surprising, bearing in mind that this segment has seen the lowest level of ATD growth. However, keeping the vacancy rate down has come at a cost as gross rental only increased by 4.8% suggesting negative reversions on renewal and re-letting.

The Community centre segment is next lowest at 4.5%, although vacancy in the segment has slowly trended higher since bottoming out at 2.9% in December 2016. Since mid-2018, the vacancy rate of the Super Regional segments is down 100bps while that of the Small Regional segment is up 170bps.

A sense of scale is still important when comparing vacancy rate across the different retail segments. A vacancy rate of 5% in a typical Super Regional Centre equates to around 6,000sqm of empty store space while 5% for a Neighbourhood centre means a potentially more manageable 500sqm.

The economic impact of the Covid-19 pandemic could be negative for vacancy rates as retailers in certain categories could be disproportionately affected. There could also be a social impact that could influence tenant mix, category shift and space utilisation.
RESULTS FOR THE QUARTER ENDED MARCH 2020.
MAY 2020

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