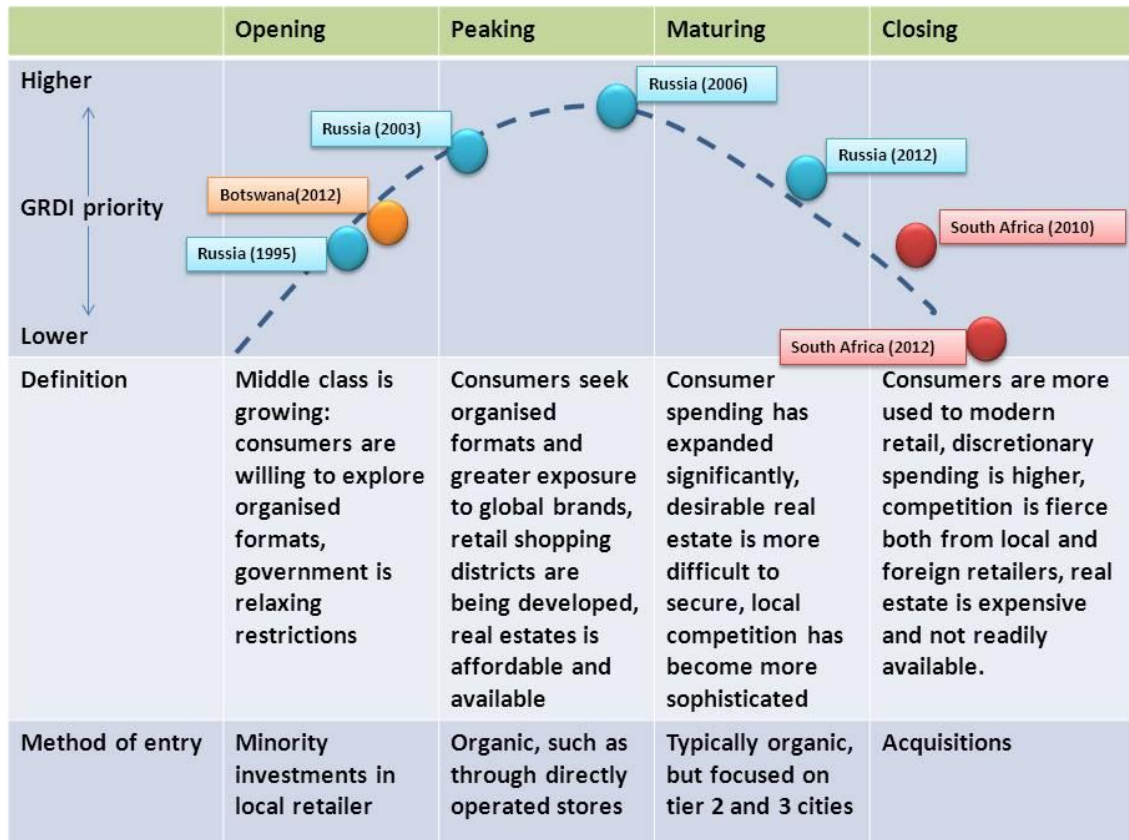


During an interview on 12 June 2012, by CNBC Africa with Mr Willem Plaizier, partner at AT Kearney, the 2012 Global Retail Development Index (GRDI) and the attractive African retail markets were discussed. This Global Retail Development Index is conducted annually to indicate the top 30 developing countries with the highest potential for retail development and the following comments were made by Plaizier regarding South Africa:

*"South Africa is not on the list of the 30 developing countries any more. South Africa is not on the list for very **positive reasons** because it is already a very developed retail market."* The countries on the Global Retail Development Index for 2012 with the highest opportunities are Brazil, Chilli, China, Uruguay, India and Georgia.

The Global Retail Development Index "window of opportunity" **has closed** for South Africa, mainly because of a very well established retail market reaching saturation according to the authors of this report. The window of opportunity has closed because consumers are now more used to modern retail in general. There is high discretionary spending available. Competition is fierce both from the local and foreign retailers. Real estate is also expensive and not readily available. See Diagram 1.

Diagram 1

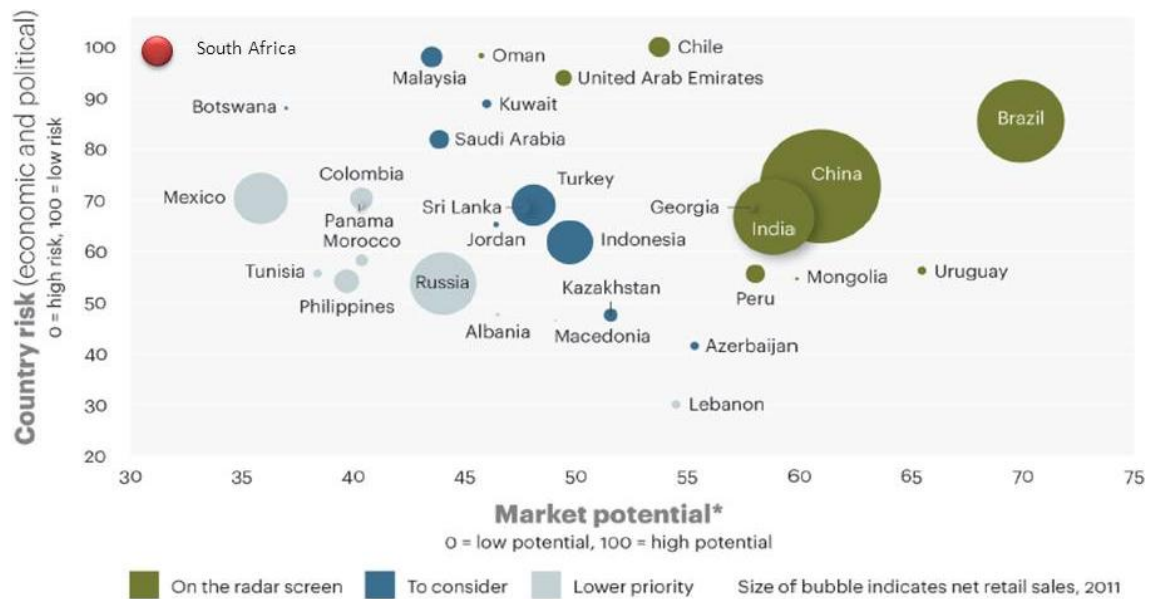


Source: AT Kearney; *Global Retail Expansion: Keeps on moving*, <http://www.atkearney.com>.
Adjusted by Author

On Bloomberg TV on 15 June 2012, Mike Moriarty partner at AT Kearney also mentioned the fact that South Africa did not make it as one of the Top 30 developing countries on the 2012 Global Retail Development Index. He is also of the opinion that this is positive. Diagram 2 focusses on the Global Retail Development Index indicating the position of the 30 developing countries in 2012. South Africa only featured for two years on this particular list. This indicated that South Africa should never have been part of this list at all.

Diagram 2

TOP 30 DEVELOPING COUNTRIES ON GLOBAL RETAIL DEVELOPMENT INDEX



Source: AT Kearney; *Global Retail Expansion: Keeps on moving*. <http://www.atkearney.com> adjusted by Author.

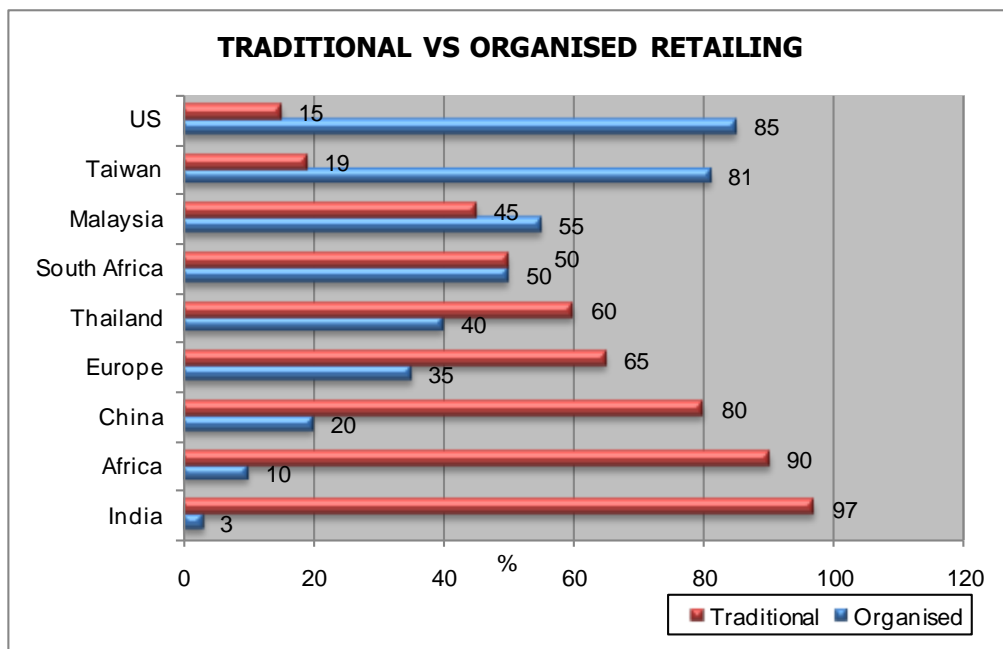
Both these TV Commentators regarded it as positive that South Africa does not appear on this list. Strong emphasis was made that South Africa should be regarded as the **stepping stone for other retailers and developers into the rest of Africa**.

According to Graph 1 there is a clear indication of the emphasis on organised retail in developed countries like the US, UK and Europe, compared to traditional retailing in India, China, Indonesia and Africa.

During 2010 South Africa was at the stage where the ratio between traditional and organised/planned retailing was at a level of 50/50. This clearly indicates that the South African retail market is **strongly developed**, although a large proportion of traditional retail still exists. This trend is changing with a strong increase in planned and organised retail facilities.

Graph 1

**ORGANISED RETAIL IN DEVELOPED COUNTRIES
VERSUS TRADITIONAL RETAILING IN DEVELOPING COUNTRIES**



Source: Adjusted by Author, 2010

The main question to be answered is how does the South African shopping centre retail market compares to selected countries in the developing and developed world.

The International Council of Shopping Centres compiles country fact sheets since 2007 (www.ICSC.org). Included is information regarding the number of shopping centres per country, shopping centre by different size categories, sales information, employment figures, demographic information, the 5 largest shopping centres per country as well as the 5 largest retailers and shopping centre owners. A selection of countries was used to compare the South African shopping centre situation. The benchmark countries are as follows:

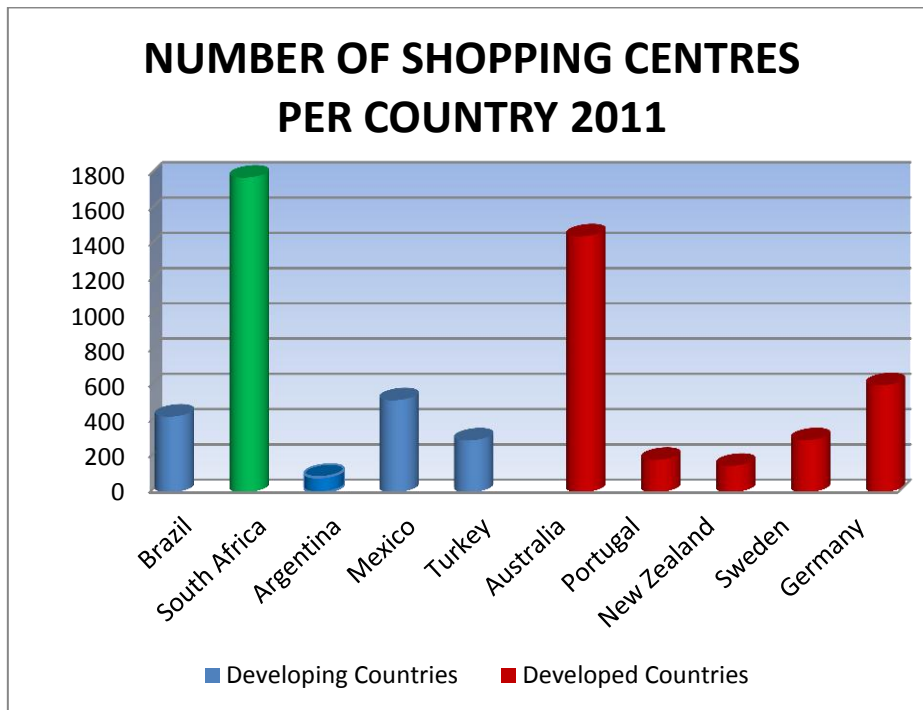
TABLE 1

**BENCHMARK COUNTRIES USED TO COMPARE
THE SOUTH AFRICAN SHOPPING CENTRE INDUSTRY**

Developing Countries	Developed Countries
<ul style="list-style-type: none"> ○ Brazil ○ South Africa ○ Argentina ○ Mexico and ○ Turkey 	<ul style="list-style-type: none"> ○ Australia ○ Portugal ○ New Zealand ○ Sweden and ○ Germany

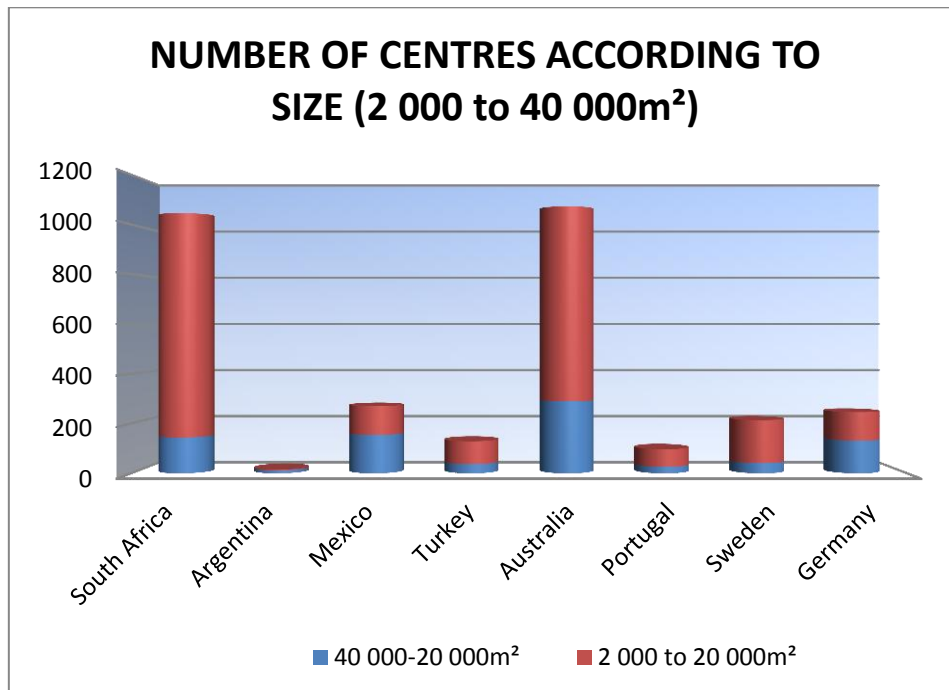
South Africa has **1 785** shopping centres larger than 2 000 meters. The closest country on the list is Australia with **1 452** shopping centres.

Graph 2

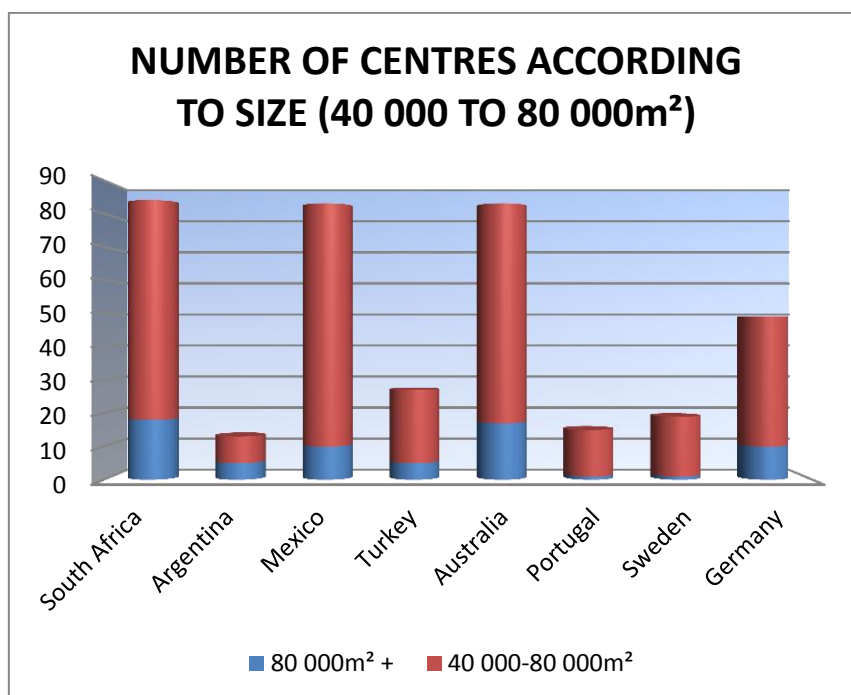


In the category (2 000square meters - 20 000square meters) South Africa has 901 shopping centres, compared to Australia with 783. The closest countries in this regard are Sweden with 173 and Mexico with 116 centres. South Africa has 144 shopping centres bigger than between 20 000square meters - 40 000square meters, while Australia is much stronger in this category with 289 centres.

Graph 3



Graph 4



South Africa started building shopping centres during the middle 1960's. At that stage the example of the American Shopping Centre development model, focussing on decentralised shopping centres, was followed. The total retail market currently consists of almost 21 million square meters and is in line with the retail shopping centre floor area in Australia. All other countries indicated on the list are much lower. There are many reasons for a slower start or a different retail approach especially in the European cities.

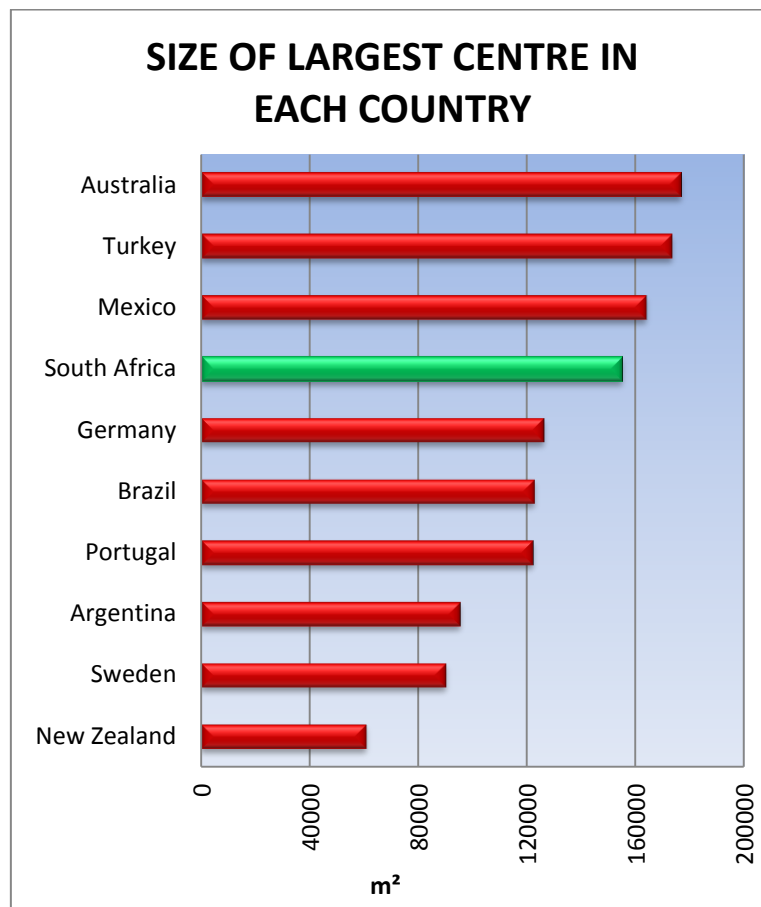
Graph 5



The largest shopping centres in Australia, Turkey and Mexico are all above 160 000 square meters, while the largest in South Africa is 154 840 square meters. Some of the large super regional centres in South Africa compares very favourably with centres in the countries used as a comparison. Sandton City in Johannesburg is catering for tourists from the whole of Africa, Europe, USA, South America and Australia.

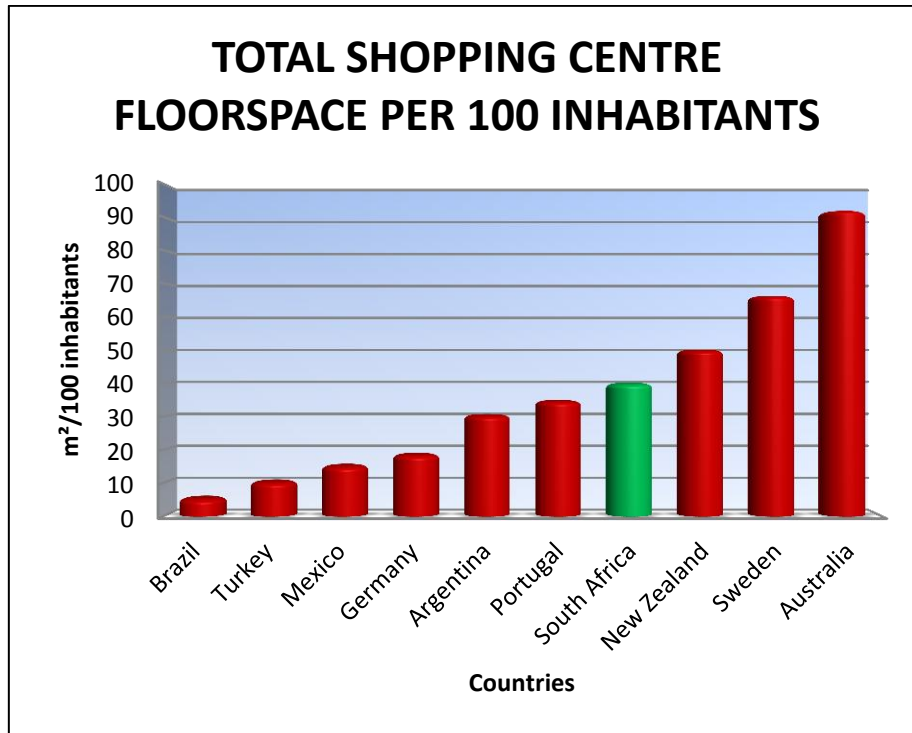
TABLE 2**ORIGIN OF TOURIST SHOPPERS TO SANDTON CITY**

Country	%
Southern Africa	23
Europe	19
Eastern Africa	17
Central Africa	11
Australia	8
North America	7
United Kingdom	6
South America	5
Middle East	4

Graph 6

The total shopping centre floor area per 100 inhabitants is a good indicator of the level of supply in relation to the total population and indirectly an indication of disposable income per capita per country. South Africa has **40 square meters** per 100 people and is higher than Portugal, Argentina, Germany, Mexico and Turkey. It is however lower than Australia, Sweden and New Zealand. Australia at the moment is at **92 square meters** per 100 of the population.

Graph 7



The South African Shopping centre market is not on the Global Retail Development Index for Developing Countries because of its maturity, size and a level of sophistication. The local industry is regarded as a **stepping stone** into the rest of Africa. In a direct comparison between developed and developing countries South Africa is highly rated and in most cases compares better than countries used in the comparison. Australia is in line but with a much larger supply per capita, mainly because of a much smaller population but much higher per capita income compared to South Africa. (see Table 3).

TABLE 3

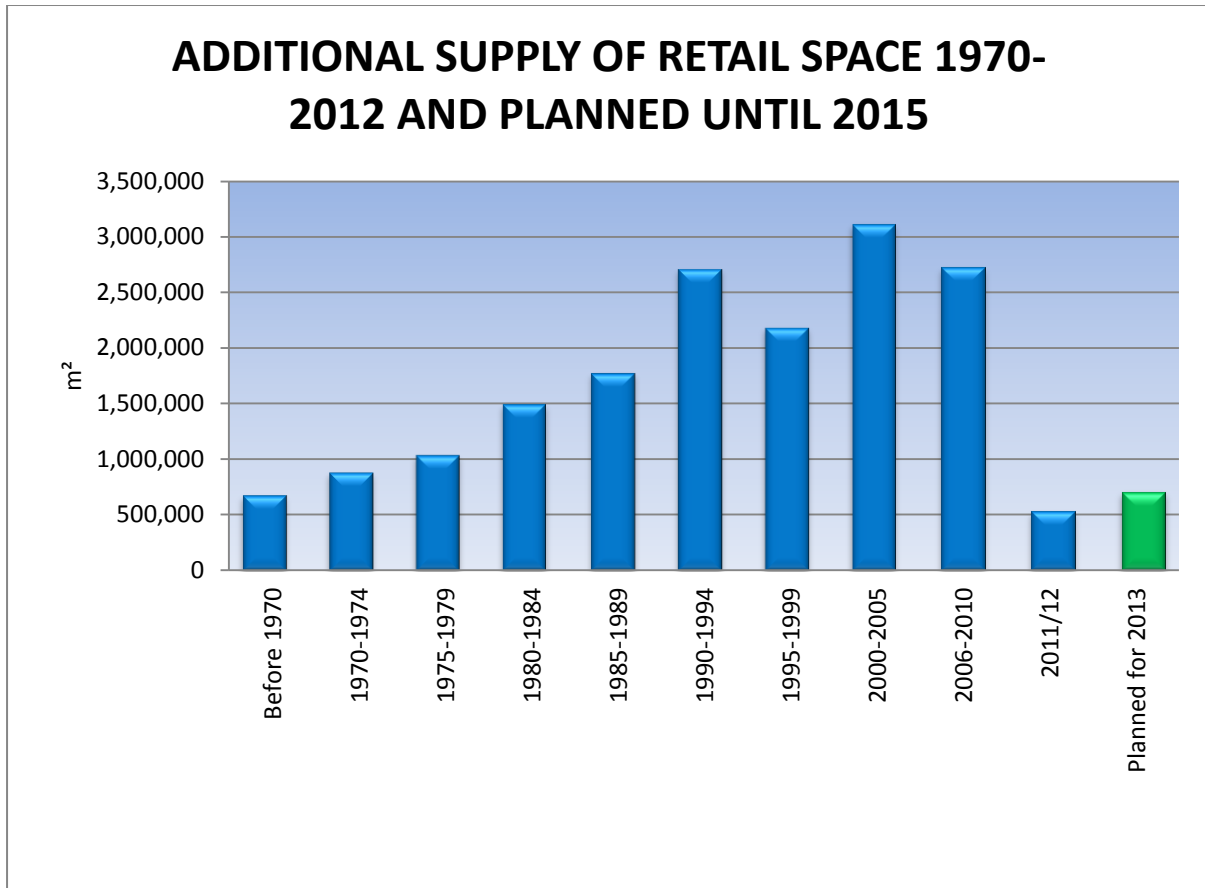
PER CAPITA GDP AT CURRENT PRICES (IN US\$)

Country	2011
Australia	67,039
Sweden	57,134
Germany	43,865
Portugal	22,226
Brazil	12,594
Argentina	10,994
Turkey	10,524
Mexico	10,063
South Africa	8,090

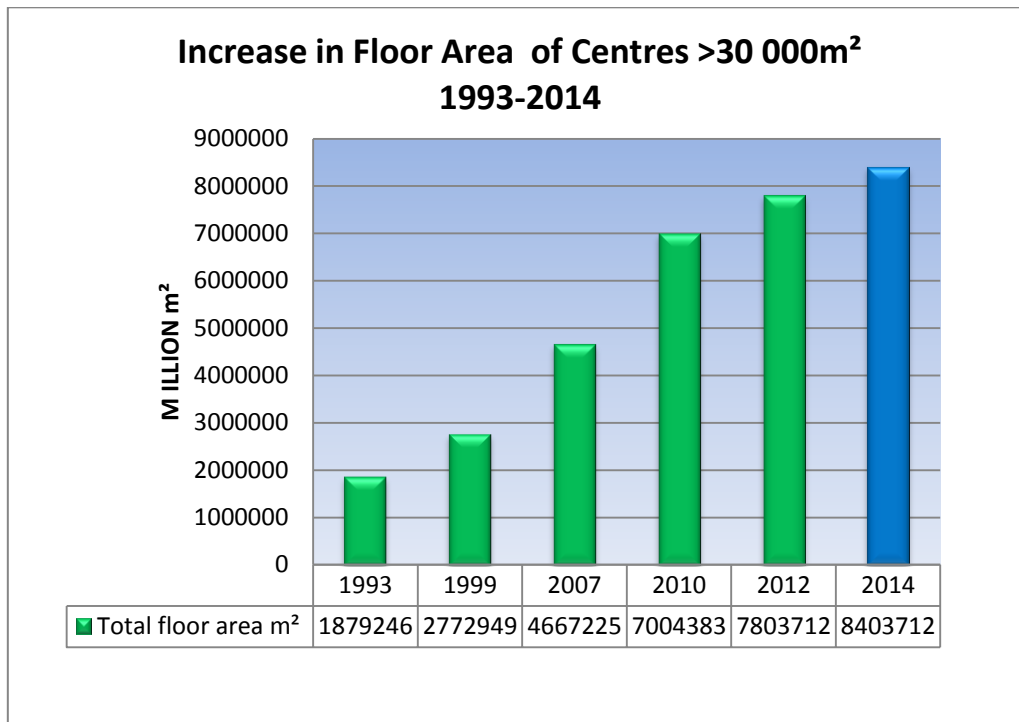
Source: United National Fact sheets per Country, 2011

What is the **growth trends** and **contribution** made by the shopping centre industry to the local South African economy? The shopping centre industry in South Africa has shown accelerated growth in the late 1980's with most growth since 2 000.

Graph 8



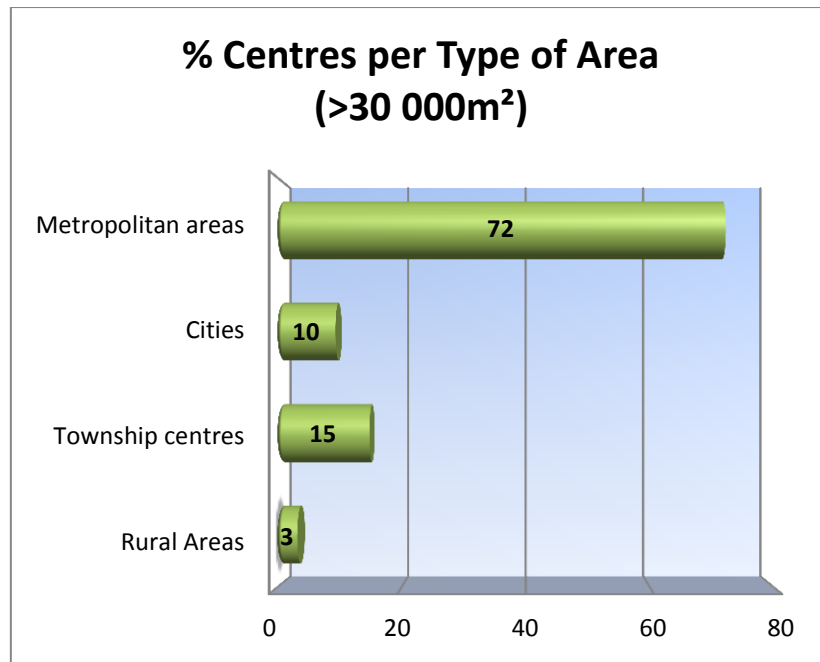
In analysing shopping centres above 30 000 square meters a good overview of the South African Shopping Centre market since the early 1990's. The total retail space in shopping centres above 30 000 square meters has shown an increase from 1.8 million square meters in 1993 to over 7.8 million square meters in 2012.

Graph 9

On average this section (large community to super-regional centres) of the retail market has been growing at a rate of **7.8%** per annum since 1993. The growth rate between 2007 and 2012 reached **a peak** with an annual growth rate of **10.8%**. This growth rate has dropped to **5.6%** for the period 2010 to 2012. This clearly indicates the impact of the economic recession experienced during 2008 and 2009.

There are already a number of shopping centre development **plans under way** for the period 2013 to 2014/15. As far as shopping centres above 30 000square meters are concerned an additional 700 000 square meters will be added to the market. This represents an annual growth of **4%** indicating that the retail market is **still in a much slower growth period** compared to previously.

Most of the shopping centres in the category above 30 000 square meters (72%) are located in one of the five metropolitan areas. The population in these metropolitan areas range between 2.5 million and 4 million people in Johannesburg. Cities represent 10% of these centres while a substantial number of towns (15%) offer centres of above 30 000 square meters. The rural market is still limited to only 3% indicating that the market potential is driven by **large population** numbers but with **very low income**. A number of centres were recently constructed and completed in the rural areas but most are smaller than 30 000 square meters. However a number of centres >30 000 square meters are being planned for deep rural areas where most retail is still part of the town centre street retail offering.



For the next 2 years retail growth in this category (>30 000 square meters) will include a number of large regional shopping centres on the **edge** of our metropolitan areas called Greenfield Developments. These shopping centres will very much depend on residential growth around the new centres to fill up the rest of their catchment areas. In most instances these centres located on the fringe have little support from rural hinterlands and therefore growth in the immediate vicinity is of utmost importance.

New retail developments called **infill development** based on large numbers of households already living in the vicinity of the proposed centres are regarded as much more positive. Infill development capitalise on existing infrastructure. These centres also act as catalysts for other commercial activities.

All the above mentioned confirms the fact that South Africa has a shopping centre industry that compares very favourably with many developed countries.

Where are the next growth opportunities going to come from?

According to the Global Retail Development Index "window of opportunity" analysis, the best method of entry by foreign developers or international retailers is by means of **acquisitions**. The Walmart/Massmart acquisition is the best example of foreign companies entering the local South African market.

The next major growth opportunity is for **regional and super regional centres to expand** because of internal demand, the entering of a number of international retailers and the natural growth based on densification policies followed by local planning departments. The growth in **larger towns and rural areas** with large populations will also continue. Between 30 and 50 new centres could be built in these areas.

The main focus of the South African Government for the next 5-15 years is to implement the National Development Plan (2011) focusing on upgrading capabilities to enable sustainable development focusing on:

- ◆ Creating jobs and livelihoods;
- ◆ Expand infrastructure;
- ◆ Transform urban and rural spaces and
- ◆ Improve education and training.

The current level of urbanisation in South Africa is $\pm 60\%$ and will further increase to $\pm 70\%$ by 2030/40 (National Development Plan, 2011, p.7). This will hopefully increase the level of disposable income as well as the retail space per 100 inhabitants to 0.5 per square meter per capita. This will further increase the demand for shopping centre retail space by a further 4-7 million square meters by 2025/30.

All this clearly confirms the fact that the **South African Shopping Centre Industry is well developed** and not part of the Global Retail Development Index for developing countries anymore. There are lots of new opportunities especially for acquisitions and foreign retailers to establish more brands in South Africa.

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