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Cannibalisation amongst same retailers & shopping centres in South Africa



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Is

'Retail Cannibalisation' an indication of poorer economic conditions, or is it a sign of greed that resulted in the worldwide economic downturn? The two major questions to be asked, and their answers are to be found within these covers.

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introduction //>>

Is 'Retail Cannibalisation' an indication of poorer economic conditions, or is it a sign of greed that resulted in the worldwide economic downturn? The two major questions to be asked are: how serious is this problem of retail cannibalisation, and what lessons can we learn from this current situation?

The term 'Retail Cannibalisation' is used when the same store opens, outlets too close to one another. A large portion of the market for the new outlet could have comprised of the customers of the older store. Potential for cannibalisation exists when companies/retailers open a number of outlets in the same catchment area.

A second type of cannibalisation is when shopping centres open in the same area, offering the same tenant mix with very little differentiation between the two centres. This is more than free market competition amongst centres. This is especially the situation in South Africa where there is a limited number of major retail tenants available to ensure centre differentiation. In the USA large regional centres can open close to each other, each offering a unique tenant range.

There are mainly four role players in the development of new stores and new shopping centres. Shopping centre developers identify opportunities to develop, retailers consider participating, banks evaluate the financial situation, and market research companies provide biased or unbiased information regarding the total market potential. The role and function of each of these four groups will be analysed to get a better understanding of the entire retail cannibalisation process.

how serious is cannibalisation? //>>

To answer this question, this report will concentrate on analysing the market by highlighting the economic growth indicators since 2006, focussing on the growth in retail shopping centre development during the last two decades, as well as sharing the views of some retailer groups, developers and bankers. There are major differences in the views of the different stakeholder groups. All this information will finally culminate in a good understanding of the market and economic conditions, the mistakes that have been made, the lessons that all have learnt and to once again return to the basic principles of shopping centre development.



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what role did the economy play? //>>

Diagram 1 shows a large number of economic indicators that have a direct and indirect influence on shopping centre development. All the Green arrow indicating a positive trend compared to a red arrow indicating a negative trend. All the 'indicator arrows during 2006 were green, except for the oil price. This situation was so unique that some of the retailers referred to this period as the 'perfect storm' where property indicators, as well as retail performances were at a peak. Subsequent to 2006, the graph for 2007 started showing a number of sideways movements, while in 2008 and 2009 the trend totally changed to red arrows. The latest second quarter indicators of 2009 are still painting a "red picture", with only two green spots namely decreases in the interest and inflation rate. These two indicators, however, have the most important impact on property development and consumer spending patterns. Many of the shopping centres coming on stream now, were planned during 2006 while the perfect storm was hitting world markets.

diagram. 1
economic indicators influencing property development (2009-08-19)

Attributes	Trend 2006	Trend 2007	Trend 2008	Latest 2009Q2	Comments
GDP growth	↑	↑	↓	↓	The overall growth in 2008 was 3.1%, -6.4% in 2009Q1 and -3% in 2009Q2 (annualised Q/Q figures). This is the 3rd quarter with negative growth. Forecast for 2009, -2% (for the year).
Inflation CPI	↓	↑	↑	↓	8% May 09 (CPI) & 6.9% June 09. Inflation expectation for end of 2009 is 5.6%. The PPI for June 09 deflated by 4.1%.
Rand/Dollar	↑	↑	→	↑	Currently around ±R8 to the dollar. A strong rand could hurt exports, but would make imports cheaper and benefit domestic inflation.
Building Plans Passed	↑	→	↓	↓	Total building plans passed: 3.9% increase y/y May 09. Residential: -22.8% decrease y/y May 09. Non-residential: 66.4% increase y/y May 09.
Building Plans Completed	↑	→	↓	↓	Total building plans passed: 0.3% increase y/y May 09 Residential: -13.1% decrease y/y May 09 Non-residential: 31.6% increase y/y May 09.
Domestic Cement Sales	↑	↑	↑	↓	Down 13.4% y/y in May 09 (monthly average sales per day).
Car Sales	↑	→	↓	↓	Figures for y/y June 09/08: Total car sales: -23.7% New cars: -17.4%. Medium & heavy trucks (respectively): -52% (combined %) Car exports: - 52.5%.
House Prices	↑	→	↓	↓	May 09, deflation (Real Values) of 11.1% y/y change and 10.1% for Jan-May 2009.
Formal Employees	↑	↑	→	↓	Unemployment in 2Q2009 was 23.6% up from 23.5% in the previous quarter. Formal employees are down 2.1% for the 3 months from Dec to March 09, from 8.5m to 8.3m employees.
Retail Sales (constant prices) Retailers Index	↑	↑	↓	↓	Latest: June 09 y/y -6.7% April 09 y/y -6.9% and May 09 y/y, -4.2%. Consumer confidence is currently very low and the easing of the monetary policy should help with recovery of confidence.
SACCI Business Confidence Index	↑	→	↓	↓	Currently (July 09) 83.2, this shows a 0.1 rise from June 09.

¹ Green arrow indicating a positive trend compared to a red arrow indicating a negative trend

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Attributes	Trend 2006	Trend 2007	Trend 2008	Latest 2009Q2	Comments
RMB/BER Business Confidence Index	↑	↑	↓	↓	June 09 = 26 (this confidence index varies between 0 and 100, therefore 50 is neutral) 26, is the lowest RMB-BCI since Sept 99.
Interest Rates	↓	↑	↑	↓	Repo 7% and Prime 10.5% The effect of 5% interest rate cut since Dec 2008 has not completely turned into positive confidence, expectations and consumption.
Manufacturing	↑	↑	↓	↓	-17.2% y/y May 09 and - 17.1% y/y June 09, this shows the tough circumstances of the manufacturing sector currently. Purchasing Manager Index: Decreased from 37.9 to 37.3 in June to July
Building Confidence Index	↑	↑	↓	↓	Index dropped to 28 in 1Q09, compared to 40 in 4Q08.
Oil Prices	↑	↑	↓	→	Currently at 69.74\$/barrel. Higher prices could hamper inflation prospects, especially if the rand weakens. Oil price forecast is ±85\$/barrel for later in 2009. In the light of economic recovery later in 2009, demand prospects forced the oil price to above 70\$/barrel.
Tax Cuts	↑	↑	↑	↑	Income tax relief of R13.6 billion.

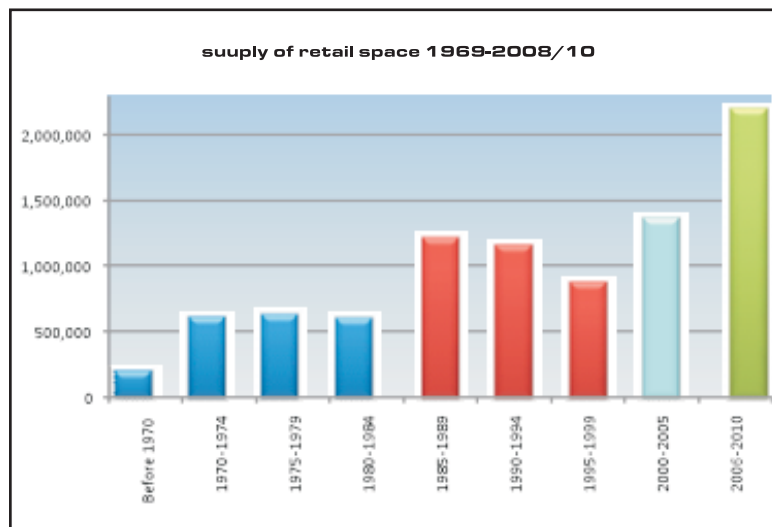
source: urban studies, 2009

what are the trends as far as shopping centre

development is concerned? //>

The earliest boom period in shopping centre development was between 1985 and 1994. During this 10 year period almost 2.4 million m² of shopping centre space was completed (Graph 1)

graph.1



source: south african council of shopping centres, 2009/2010

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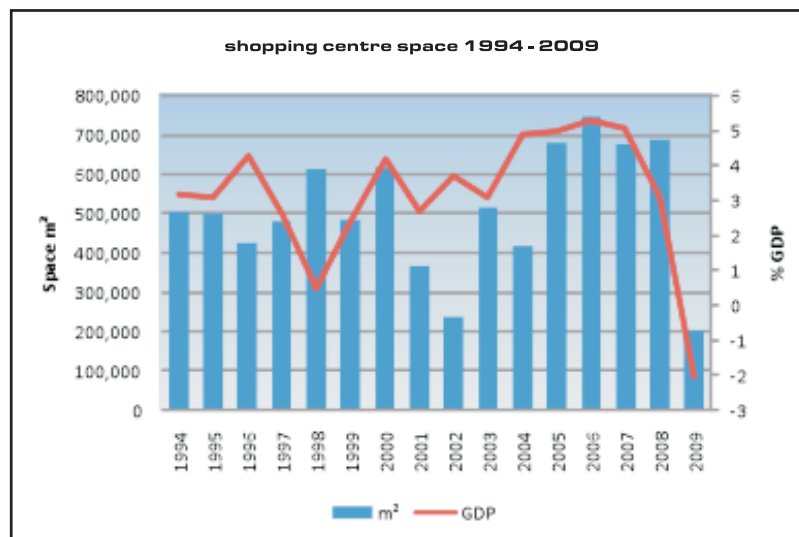
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The next highest growth was between 2000 and 2005 when large super regional centres like Canal Walk and Gateway Theatre of Shopping were completed. During this 5-year period, close to 1.4 million m² of retail space was completed.

The current 5-year period from 2006-2010 will see an additional 2.8 million m² of retail space added to the total market, reflecting the **highest boom period ever**. This boom period also coincides with world market growth, and is typical of the **perfect storm** period that started in 2006. (Graph 2)

graph. 2



source: south african council of shopping centres, 2009/10 & Statistic SA, 2009

The lag period in GDP growth and shopping centre development is also clearly reflected in Graph 2. The GDP growth rate during 2006 was $\pm 5.2\%$ and is currently at -3% , while the growth in shopping centre space is still at 12.4% for the period 2008/9. The number of shopping centres in South Africa, larger than 30 000m² has increased from **36 centres in 1993 to 116 in 2009**. The floor area during the same period for these size centres has increased from 1.88 million m² to ± 6 million m². The annual growth in retail space for the period 1993-2009 for this size centres was 8% , while the growth over the last 3 years (2006-2009) was 12.4% . This confirms the findings in Graph 2, indicating the high growth during the recent 5-year period.



table 1
number of shopping centres in different categories: 1993-2009

Size	1993	1999	2007	2009
30 000 - 50 000m ²	12	19	51	68
50 000 - 100 000m ²	24	39	37	48
Number floor area m ²	36	58	88	116
Total floor area m ²	1 879 246	2 772 949	4 746 069	5 994 847
Growth rate p.a. 1993 - 2008/9	8.0%			
Growth rate p.a. 1999 - 2008/10	8.9%			
Growth rate p.a. 2007 - 2009	12.4%			

*Centres moving from size category to the next because of expansion.
Source: South African Council of Shopping centres Directory 2009/10

graph. 3



source: south african council of shopping centres, 2009/10

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What are the main drivers in the demand for retail facilities? //>>

The official population numbers in South Africa is 49 million, while at this point in time, no clear indication exists of the number of foreigners living and working in South Africa. The estimated population therefore could be in the vicinity of 52/53 million people. As far as the official South African population is concerned, two broad scenarios exist where the total population will increase to ± 58 mil by 2020, or decrease to 44 million as a result of HIV/Aids.

One of the most important demographic changes in South Africa is reflected in the change in the LSM categories since 2002. During this period, there has been a substantial decrease in the number of households forming part of LSM 1-3, the highest increase occurred in LSM 4-6, while substantial increases also occurred in LSM 7-10. This is the best indicator available, showing the strong increase in the middle segments of the market, as well as the high increase in the more affluent households. This growth is very positive for retail development.

[Graph 4]



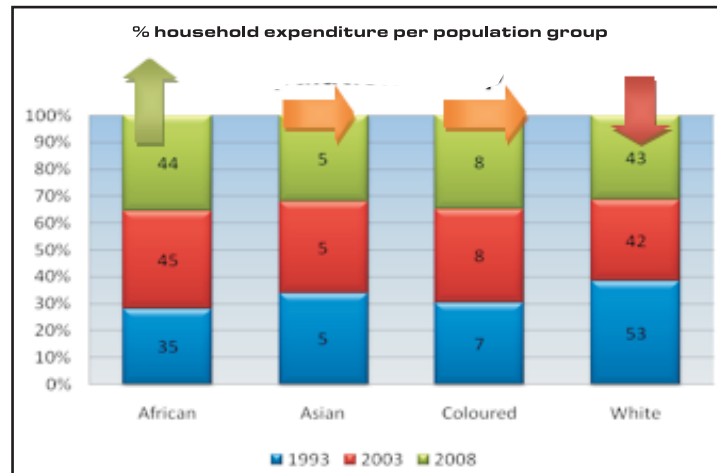
source: saaarf, 2009

A further illustration of the increase in the emerging black market is shown in Graph 5 where the contribution by black Africans increased from 35% in 1993 to 44% in 2008. During the same period the contribution made by white households decreased from 53% to 43%.

The change in the LSM profile and expenditure levels is clearly reflected in the profile of most of our shopping centres, which widened. Centres that previously only catered for LSM 8-10 customers now cater for a broader LSM 5-10 profile.

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source: bureau of market research, 2009

The socio-economic and demographic changes discussed above were also supported by the growth in the number of households, especially in the metropolitan areas. During 2006 the number of residential units completed in these areas, reached an all time high. The most important aspect regarding this growth was the fact that for the first time ever in the history of South African cities, the growth was not only restricted to one sector of the city. Growth occurred in all directions around the cities including low, medium and higher socio-economic areas (Maps 1-4). A large number of centres have opened in these new growth areas. In many instances, a 'follow the roofs' strategy was followed where a centre was only completed 4 or 5 years later to capitalise on this growth.

The residential component was affected severely by high interest rates, high inflation and very negative worldwide economic conditions. The growth rate in the number of completed houses in the metropolitan areas has decreased substantially. Many of the new shopping centres in South Africa were built in the high growth period during 2004 and 2009. The expected growth that would have supported these centres has almost come to a standstill. At the moment, this is one of the factors affecting the performance of new centres most severely.

The SACSC is defined by the creation of retail and property-related communications opportunities, the promotion of information sharing, and the platform it creates for education. In essence, we strive to create **authentic value** for our members through nurturing of networking opportunities within the retail realm.

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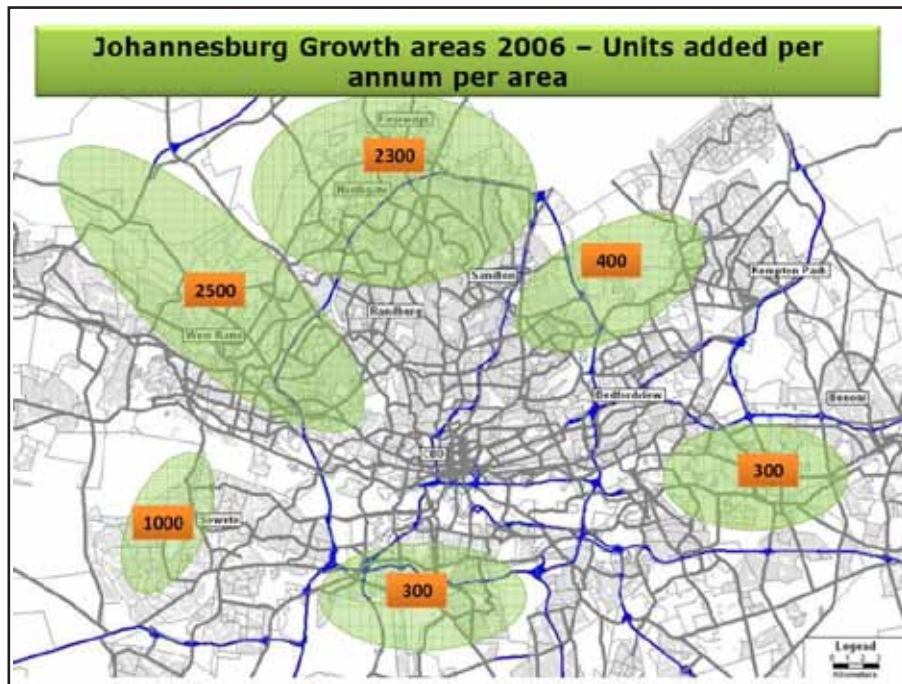


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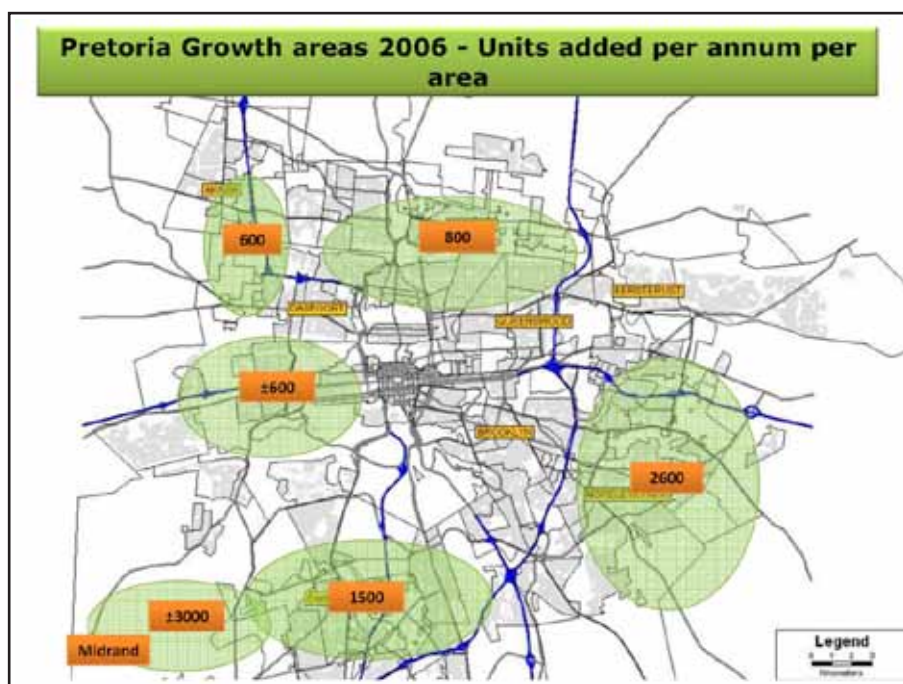
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in each of these growth areas (map 1), new centres like clearwater, greenstone mall, the whole fourways node, a number of centres on the east rand and in soweto opened.



very high growth occurred in the east and south of pretoria which resulted in major shopping centre growth.

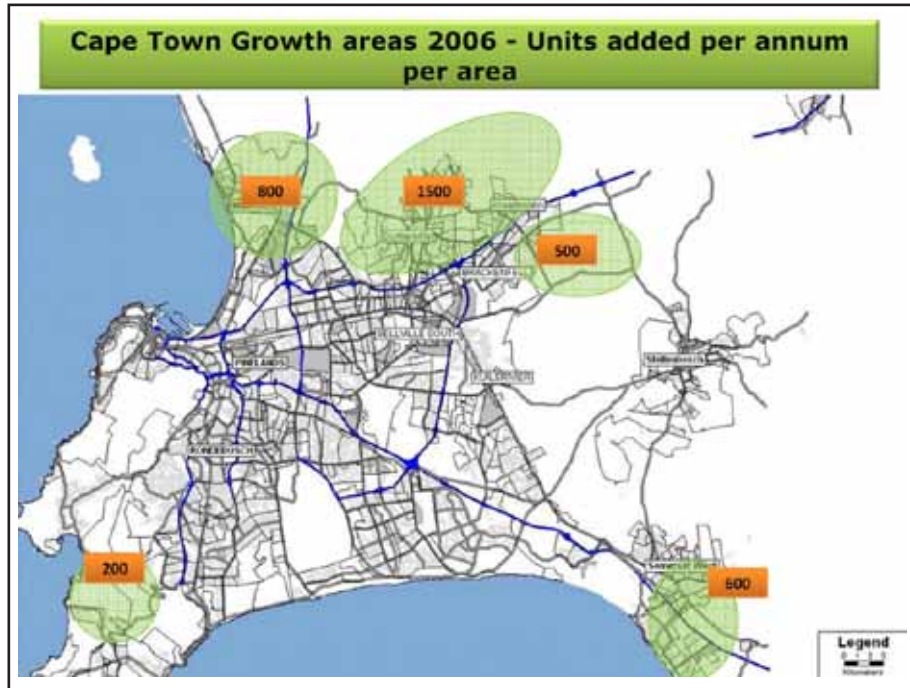


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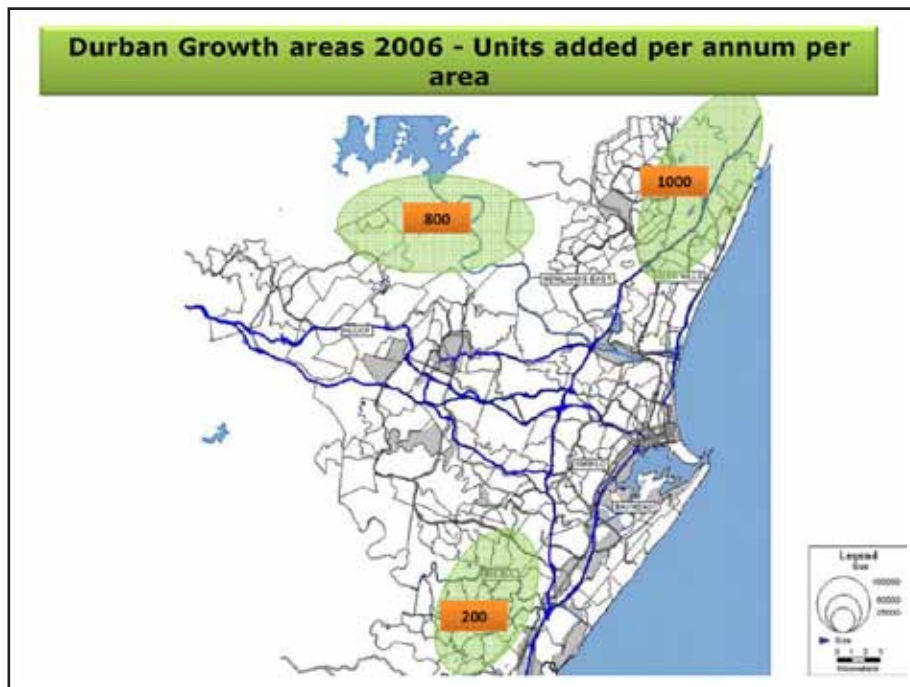
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capegate also capitalised on the growth in the surrounding area.



the 3 growth areas in durban have seen major shopping centre growth.



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Retail has been influenced by the perfect economic storm experienced over the last 5 years.

The following aspects had an effect:

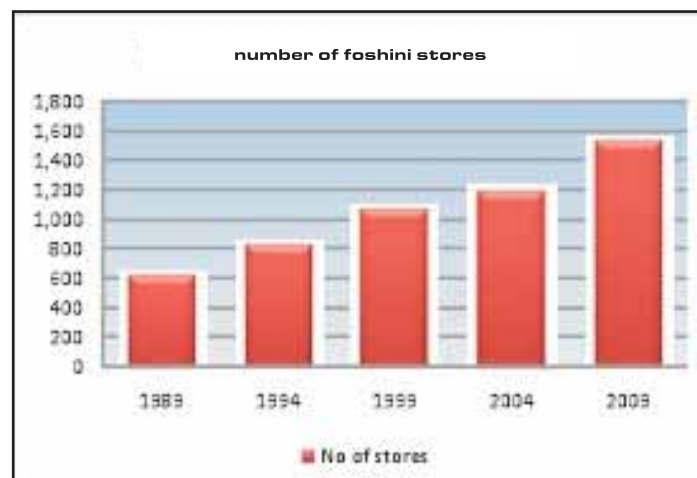
- the increase in the socio-economic and demographic profile of the middle and upper income markets;
- high inflation and interest rates impacting on consumer expenditure; and
- high residential growth that has come to a standstill.

All this definitely impacted on the whole phenomenon of retail cannibalisation.

how did the retailers react during this high growth period? //>>

The following graphs give us an indication of store growth, floor area growth and the impact on trading densities. This is not a reflection of the performance of all retailers, but only of a selected few to highlight certain trends over the last few years.

The **Foschini Group** showed accelerated growth of 7.7% per annum during the period 1994-1999. During the previous slower economic growth period the opening of stores grew at 2.3%. The current 5-year period shows 5.2% growth in stores and 7.6% growth in floor space.



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The **Mr Price Group** has become a strong role player, especially with the expansion of **Mr Price Home Stores**. Floor space for the group increased during the 5-year period (2004-2009) with 14.4%, while the annual increase in retail sales during the same period, increased by 19.6%. The number of stores increased from 699 in 2004 to 971 in 2009, indicating growth of 6.8% per annum. The sales densities increased by 2.2% over the same period.

