Benchmarking the South African Shopping Centre Industry International and Local Trends

DR DIRK A PRINSLOO

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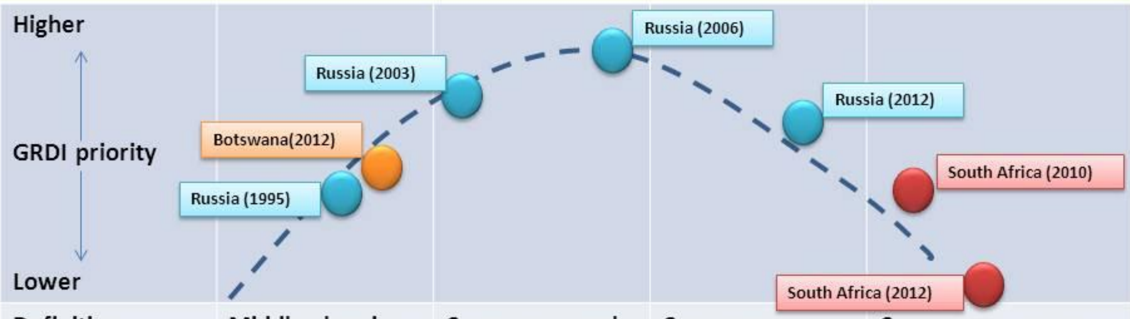
During an interview on 12 June 2012, by CNBC Africa with Mr Willem Plaizier, partner at AT Kearney, the 2012 Global Retail Development Index (GRDI) and the attractive African retail markets were discussed. This Global Retail Development Index is conducted annually to indicate the top 30 developing countries 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 Global Retail Development Index for 2012 with the highest opportunities are Brazil, Chile, 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, retail real estate is expensive and not readily available. See Diagram 1.

DIAGRAM 1 GLOBAL RETAIL EXPANSION



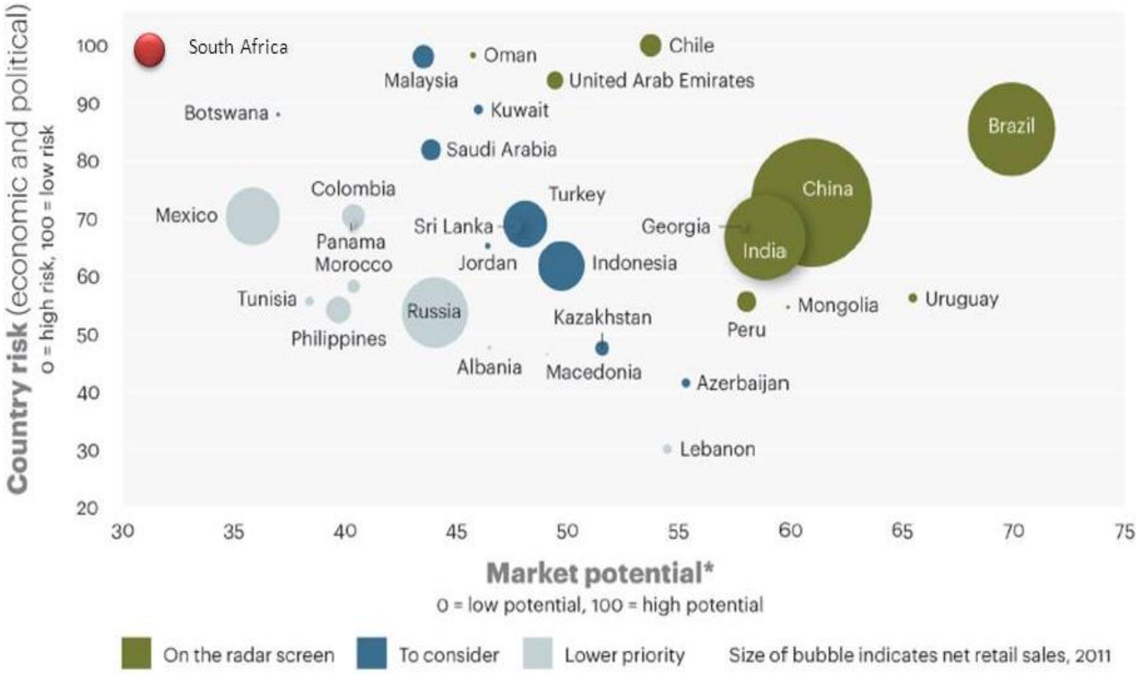
	Opening	Peaking	Maturing	Closing
Definition	Middle class is growing: consumers are willing to explore organised formats, government is relaxing restrictions	Consumers seek organised formats and greater exposure to global brands, retail shopping districts are being developed, real estate is affordable and available	Consumer spending has expanded significantly, desirable real estate is more difficult to secure, local competition has become more sophisticated	Consumers are more used to modern retail, discretionary spending is higher, competition is fierce both from local and foreign retailers, real estate is expensive and not readily available.
Method of entry	Minority investments in local retailer	Organic, such as through directly operated stores	Typically organic, but focused on tier 2 and 3 cities	Acquisitions

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 on the list of the Top 30 developing countries of the 2012 Global Retail Development Index. He is also of the opinion that this is positive. Diagram 2 also 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**



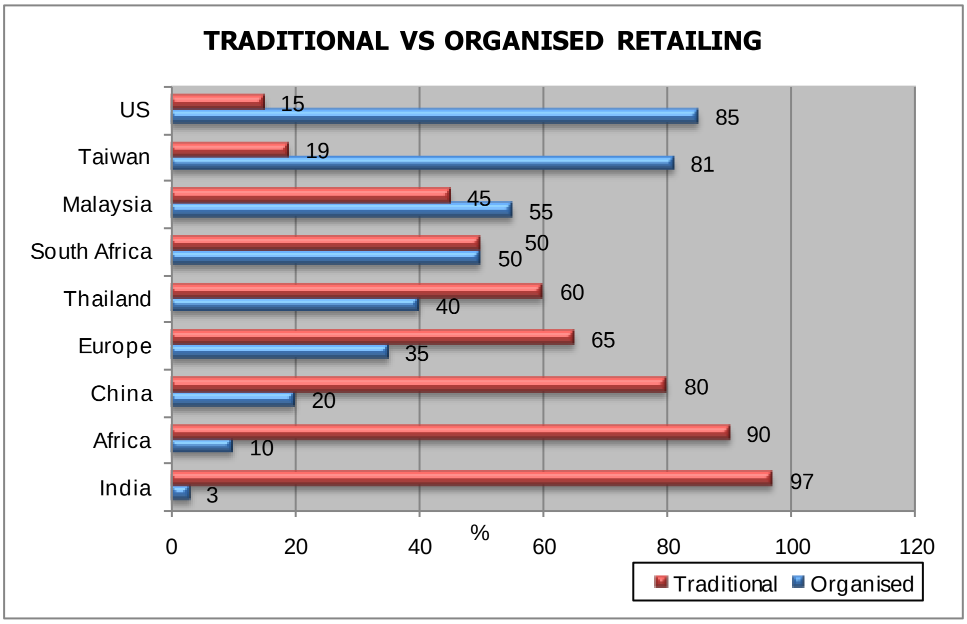
Source: AT Kearney; Global Retail Expansion: Keeps on moving. http://www.atkearney.com (adjusted by author)

Both these TV commentators highlighted that the fact that South Africa is not on the list, must be regarded as very positive. 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 the South African shopping centre 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 five largest shopping centres per country as well as the five 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:

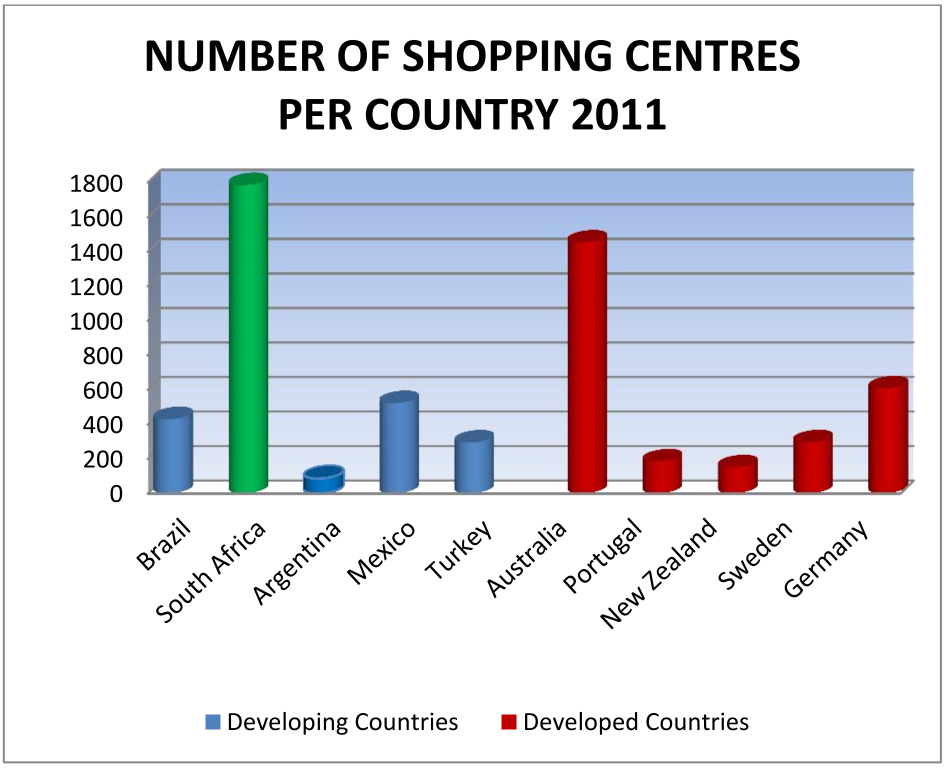
TABLE 1

BENCHMARK COUNTRIES USED TO COMPARE THE SOUTH AFRICAN SHOPPING CENTRE INDUSTRY

Developing Countries
○ Brazil
○ South Africa
○ Argentina
○ Mexico
○ Turkey
Developed Countries
○ Australia
○ Portugal
○ New Zealand
○ Sweden
○ Germany

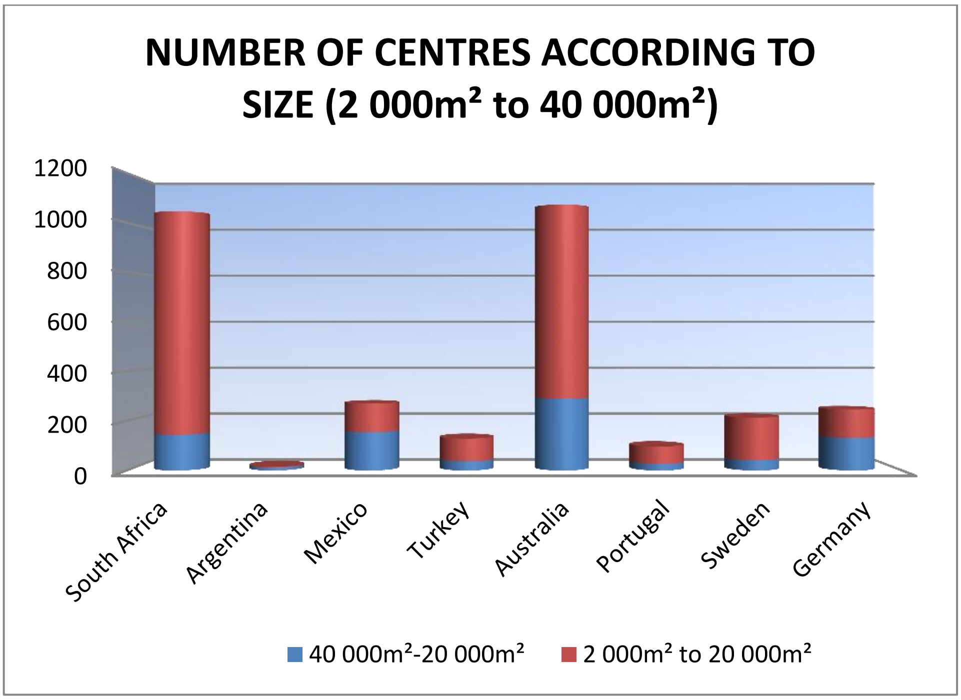
South Africa has **1 785** shopping centres larger than 2 000 m². The closest country on the list is Australia with **1 452** shopping centres larger than 2 000 m².

GRAPH 2

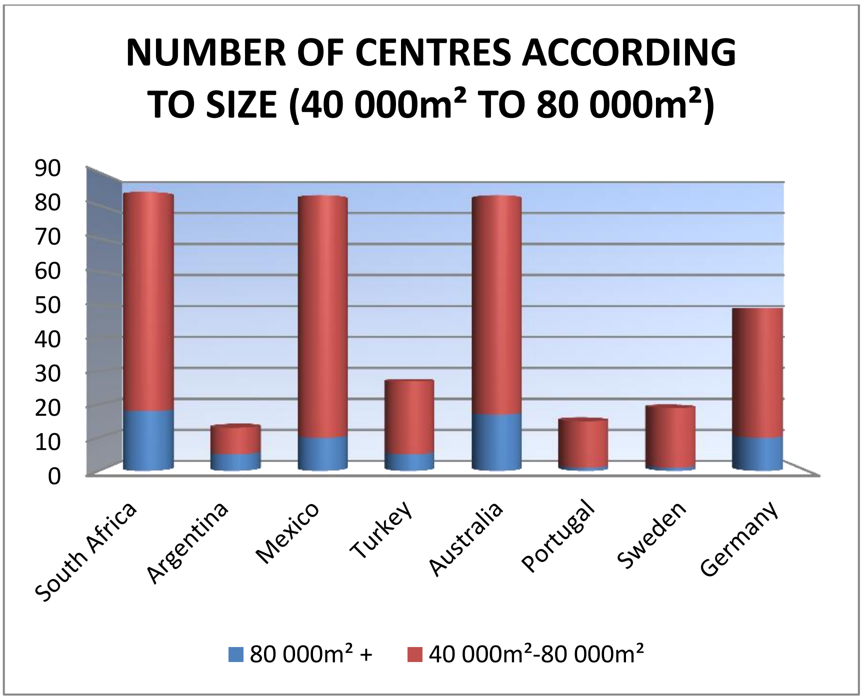


In the size category, 2 000m² - 20 000m², South Africa has 901 centres compared to Australia at 783. The closest countries in this regard are Sweden with 173 and Mexico with 116 centres. South Africa has 144 shopping centres between 20 000m² - 40 000m², while Australia is much stronger in this category with 289 centres.

GRAPH 3



GRAPH 4



South Africa started building shopping centres during the mid 1960s. 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 m² and is in line with the retail shopping centre floor area in Australia. All other countries indicated on this list have less retail space. There are many reasons for a slower start or a different retail approach especially in the European cities.

GRAPH 5

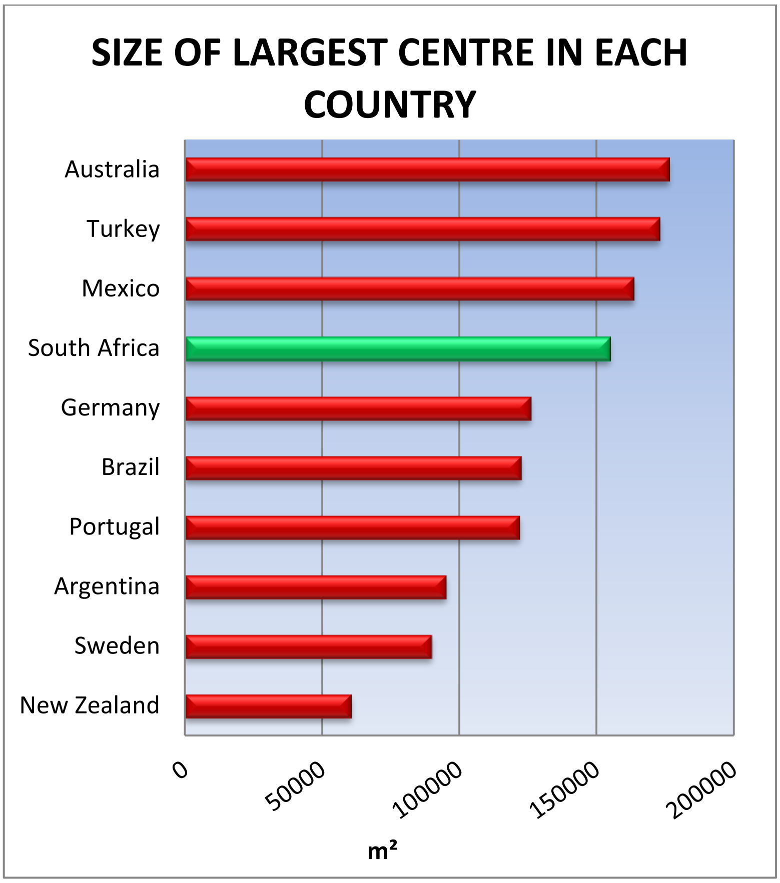
The largest shopping centres in Australia, Turkey and Mexico are all above 160 000 m² while the largest in South Africa is 154 840 m². Some of the large superregional centres in South Africa compare very favourably with centres in the countries used as a comparison. Sandton City in Johannesburg is catering for tourists all over 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


SIZE OF LARGEST CENTRE IN EACH COUNTRY
Australia
Turkey
Mexico
South Africa
Germany
Brazil
Portugal
Argentina
Sweden
New Zealand
0
50000
100000
150000
200000
m²

The total shopping centre floor area per 100 inhabitants is a good indicator of the level of supply in relation to the total population. This is also an indirect indication of disposable income per capita per country. (See Table 3) South Africa has **40 m²** per 100 people which 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 m²** per 100 of the population.

GRAPH 7

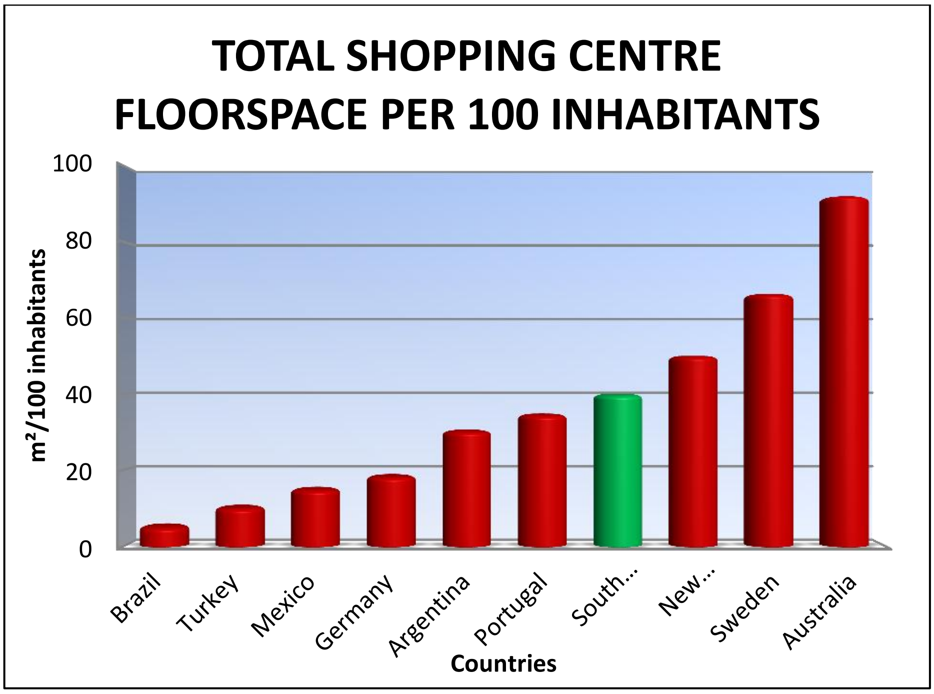


TABLE 3

PER CAPITA GDP AT CURRENT PRICES (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

The South African Shopping Centre market is not on the Global Retail Development Index for Developing Countries because of its maturity, size and 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 most other developing and developed countries, used in a benchmark comparison.

The next main question is:

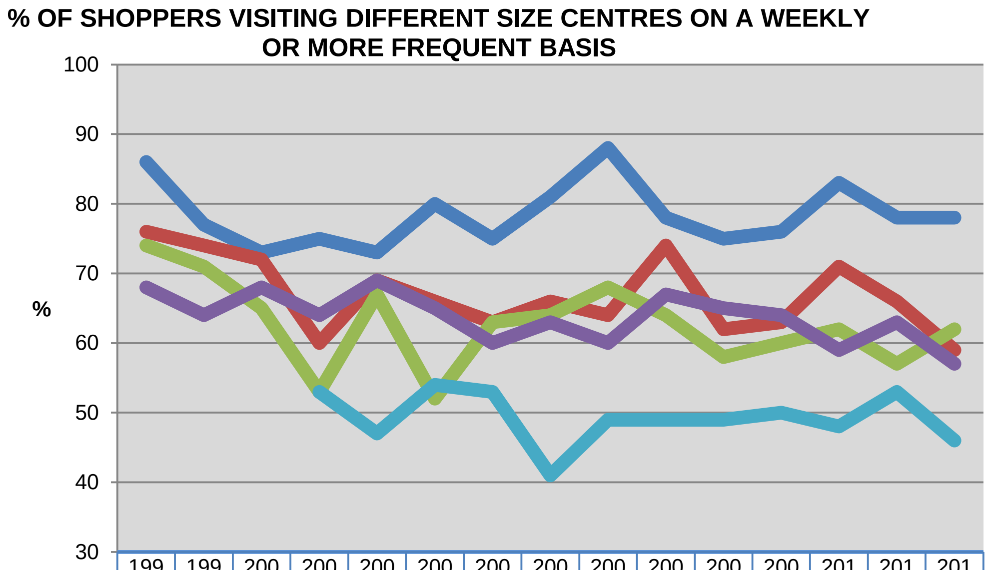
- *What is the benchmark performance of superregional, regional and community centres in South Africa in terms of:*
    - average time shoppers spend in a centre
    - average drive time
    - frequency of visits and
    - pedestrian volumes per centre

This information is based on tracking information included in primary market research conducted by Urban Studies since 1998 at more than **240 shopping centres** throughout South Africa.

Frequency of Visits

The weekly support for all different types of shopping centres varies from as high as 86% weekly visitors supporting neighbourhood centres down to 46% support of superregional centres once a week. These two types of centres represent the extreme ends of different weekly trips mainly due to the role and function played by each of these different centres in the hierarchy of shopping centres. The weekly support for community, small regional and regional centres has been very consistent moving in the **same band** for at least the last 10 years. These three categories of centres are more or less supported by 60% - 64% of their customers on a weekly or more frequent basis. The weekly support levels, since 1998, have remained very consistent. See Graph 8.

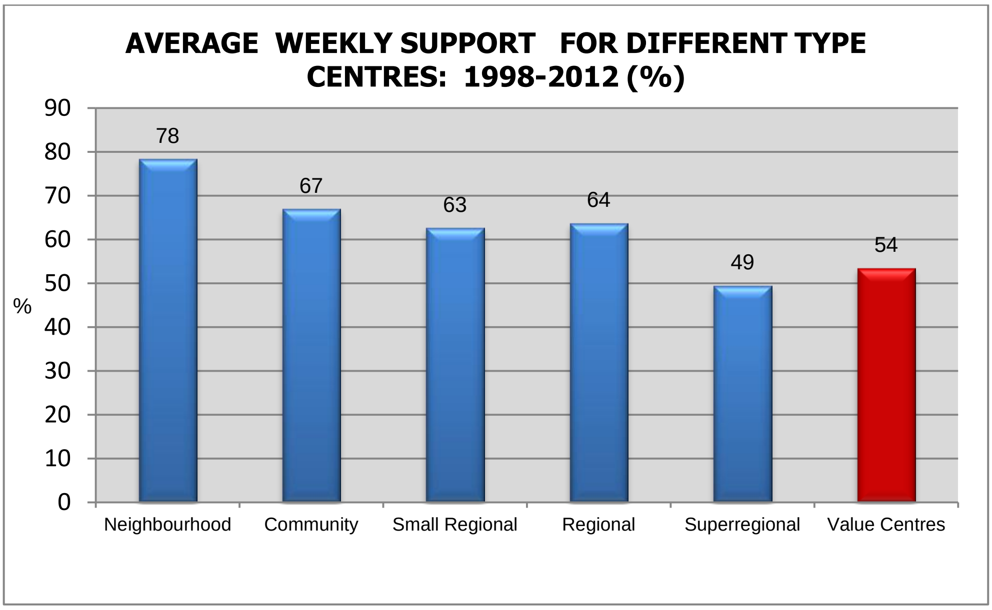
GRAPH 8



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Neighbourhood	86	77	73	75	73	80	75	81	88	78	75	76	83	78	78
Community	76	74	72	60	69	66	63	66	64	74	62	63	71	66	59
Small Regional	74	71	65	53	67	52	63	64	68	64	58	60	62	57	62
Regional	68	64	68	64	69	65	60	63	60	67	65	64	59	63	57
Superregional				53	47	54	53	41	49	49	49	50	48	53	46

The graph below shows the average percentage of weekly visits for different types of centres during 1998 – 2012. This confirms the abovementioned annual averages. Value centres were analysed separately and compared to the figures of superregional centres.

GRAPH 9



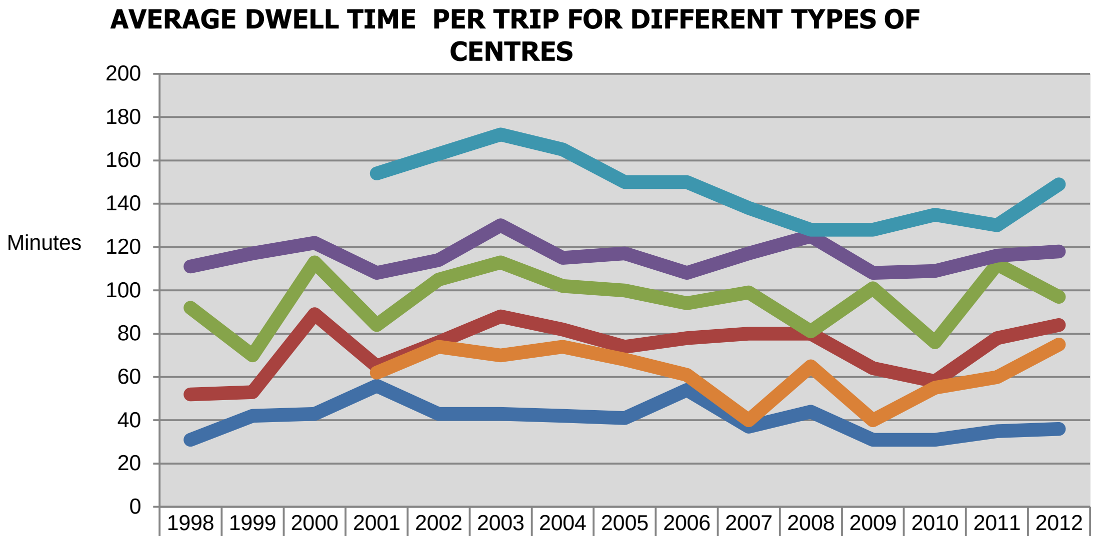
The 2012 figures indicate slightly fewer visits per month compared to the average for the last 14 years. The reason for this could be poorer economic conditions, the higher level of competition, and the fact that most metropolitan shoppers support at least **two regional centres**, while **up to 5 different** convenient centres and supermarkets are supported.

GRAPH 10

	Neighbourhood	Community	Small Regional	Regional	Superregional
Ave 1998-2012	7.6	6.9	6.5	6.4	5.2
2012	7.6	6.1	6.3	5.5	4.6

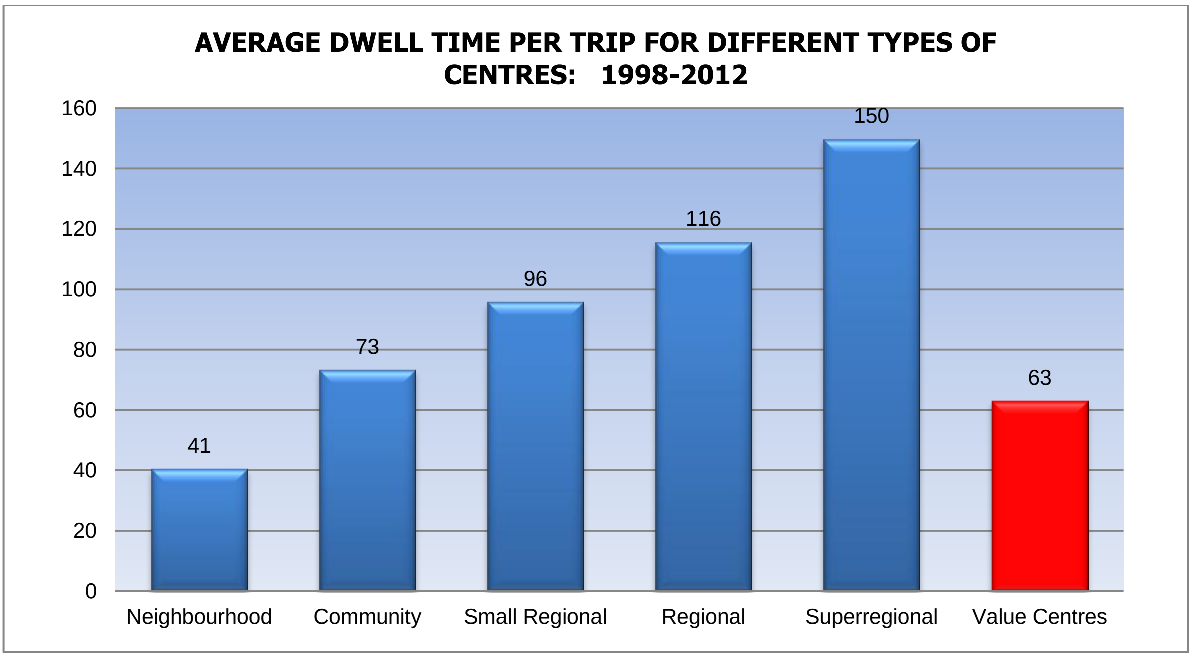
The average dwell time in a superregional centre is **150 minutes**, compared to 30 - 40 minutes in a neighbourhood centre. The time spent in regional shopping centres is the **most consistent** at ± two hours per visit.

GRAPH 11



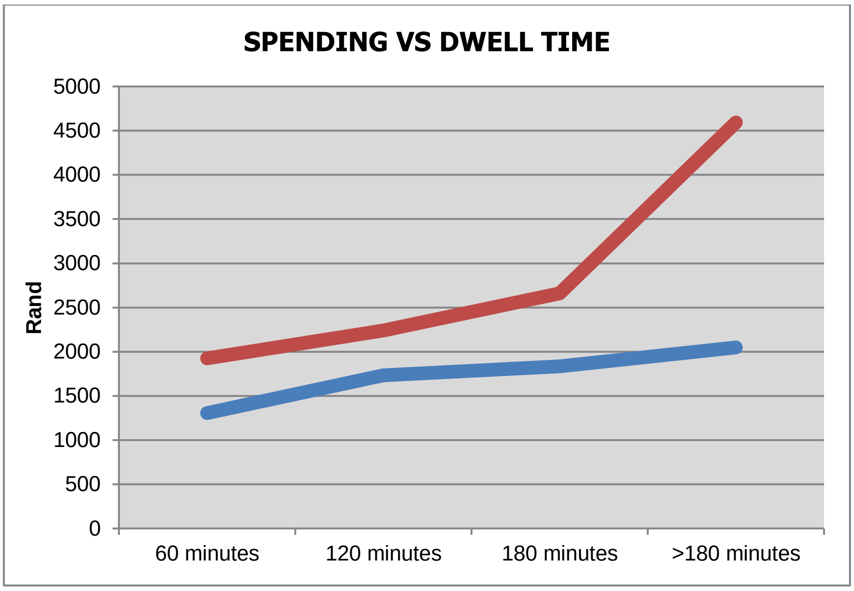
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Neighbourhood	31	42	43	56	43	43	42	41	54	37	44	31	31	35	36
Community	52	53	89	65	76	88	82	74	78	80	80	64	58	78	84
Small Regional	92	70	113	84	105	113	102	100	94	99	81	101	76	112	97
Regional	111	117	122	108	114	130	115	117	108	117	125	108	109	116	118
Superregional				154	163	172	165	150	150	138	128	128	135	130	149
Value Centres				62	74	70	74	68	61	40	65	40	55	60	75

GRAPH 12



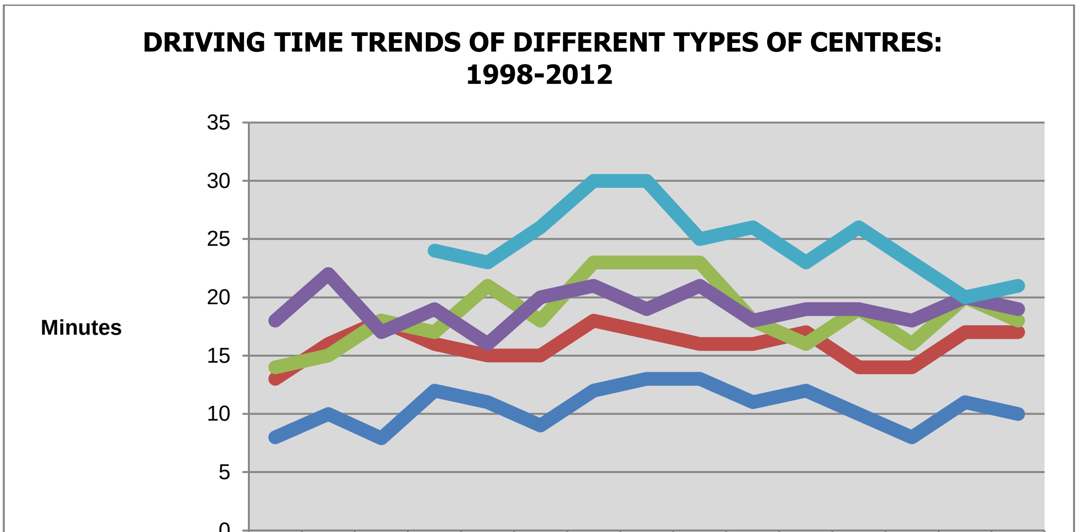
A strong correlation exists between dwell time and total spend. Graph 13 indicates how the amount per trip increases with longer dwell times. Two totally different centres indicate the same positive correlation.

GRAPH 13



The average **drive time** to the different types of shopping centres is clearly indicated in graph 14. Once again the major difference is between the neighbourhood and superregional centres while figures for community, small regional and regional centres are more or less the same. Value centres fall in the same band of between 12 and 19 minutes' drive time. The drive time will always be influenced by a number of local circumstances including traffic volumes, travel barriers, the road system and the availability of parking.

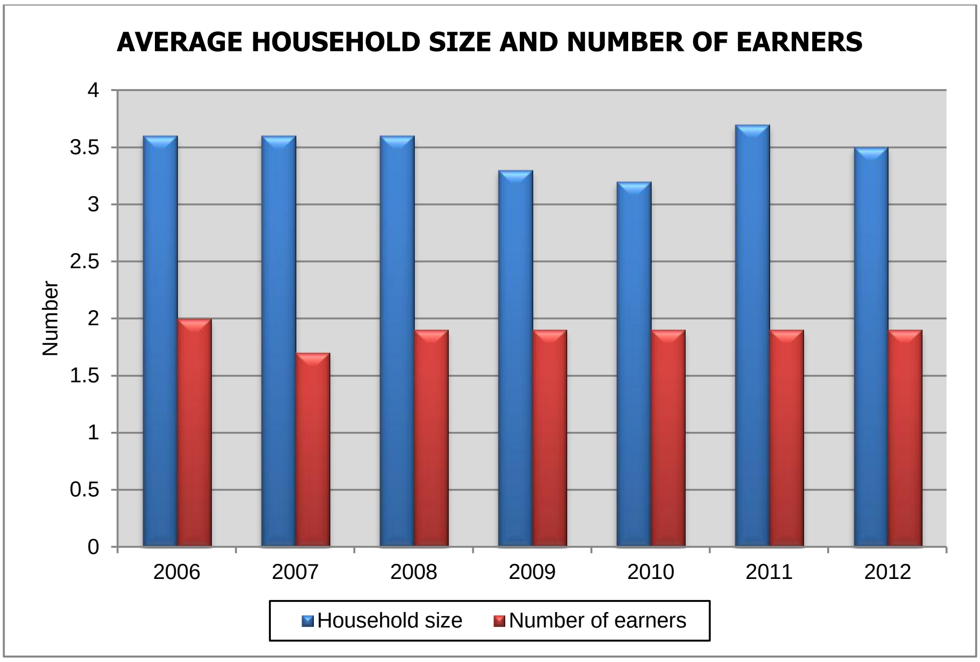
GRAPH 14



Centre type	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Neighbourhood	8	10	8	12	11	9	12	13	13	11	12	10	8	11	10
Community	13	16	18	16	15	15	18	17	16	16	17	14	14	17	17
Small Regional	14	15	18	17	21	18	23	23	23	18	16	19	16	20	18
Regional	18	22	17	19	16	20	21	19	21	18	19	19	18	20	19
Superregional				24	23	26	30	30	25	26	23	26	23	20	21

The benchmark figure for the number of people per household is currently at 3.5 people and for the number of earners per household on average at 1.9 people per household. These figures are very consistent and were confirmed by Census 2011.

GRAPH 15



The most important benchmark indicators are the number of people per m² per month per centre.

Table 4 gives an indication of the average number of people per square meter per month entering a particular centre. The average number of people/m²/month for neighbourhood and community centres varies between 17 and 18 people per square meter per month respectively. These figures are a function of the micro location of these centres and their focus on convenience products.

Many of the **smaller regional** and larger community centres built over the last 5 to 8 years fall in the category of 10 people/m²/month and less. This clearly indicates that these centres were built **too early** or in many instances these centres were built **too big.** Most of the centres in this same category doing more than 20 people/m²/per month are linked to **taxi ranks** or are located in **township areas**. This clearly reflects very high pedestrian volumes. These centres are mostly very good performers. There are also complaints from shoppers in these centres that they are **too busy and overcrowded**.

Some of the regional centres built during the last 10 years are also reflecting ±10 people/m²/month. This is much lower than the average of 14 people/m²/month. Many of the **olde**r regional centres are performing **well above average.** This also indicates that it does take time for a shopping centre to establish itself and for the market to expand to offer the critical mass required. Many of the older regional centres also experience higher levels of residential densification compared to centres located in Greenfields developments where the residential market has been very slow in providing new housing facilities. These older centres should be upgraded offering the latest retailer trends.

The range for superregional centres varies between 11 and 14 people/m²/month. This also portrays a very narrow band indicating that most superregional centres attract more or less the same pedestrian volumes.

TABLE 4

PEDESTRIAN VOLUMES PER CENTRE TYPE PER M² PER MONTH

Type of centre	People/m²/month	Average number of people/m²/month
Neighbourhood centres	6.3-30.0	17.1
Community centres	6.0-54.0	18.3
Large community/small regional centres	6.5-34.0	15.5
Regional centres	7.8-28.0	14.0
Superregional centres	11.3-14.0	12.7

In conclusion, the following is very clear regarding the South African Shopping Centre industry:

- South African compares very favourably with some of the developed countries and a selected group of developing countries.
- Local benchmark figures clearly highlight consistency of trends as far as most benchmarking criteria are concerned.
- The people/m²/month is a very important indicator with a good correlation with regard to the performance of different centres.

The retail sector is the **third largest contributor to the South African economy**. Retail sales during 2012 reached a total spend of R633 billion. The current level of urbanisation in South Africa is ±60% and will further increase to ± 70% by 2030/2040 (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 m² per capita. This will further increase the demand for shopping centre retail space by a further 4-7 million m² by 2025/2030.

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