



Growth Opportunities in an Already Strong Retail Market

In October 2013, a discussion of the economic and social conditions in South Africa by the International Monetary Fund (IMF) noted that “Despite its many achievements since the transition to majority rule, South Africa struggles with low growth, widespread unemployment, and sharp social tensions.” Moreover, the international organization recommended that “Africa’s largest economy needs to pursue structural reforms to boost growth and create jobs for a growing population.”¹ Because of these economic and social concerns, negative perceptions of the economy’s prospects have developed—particularly beginning in 2012—and that sentiment lingers. Nevertheless, the South African economy is projected to grow by about 2.0% in 2013 and accelerate to 2.9% in 2014, according to the IMF. As part of the BRICS countries (Brazil, Russia, India, China and South Africa), as well as a member of the G-20 group, the potential exists for South Africa to excel as a leading African country.

Slow Growth in Population

South Africa’s population increased from 40 million in 1996 to 51.7 million in 2011. Its 1.5% gain per annum in the last 10 years is slower than most other African countries. Among the many reasons for this slower growth rate is the impact of AIDS, which has lifted the number of natural deaths from 400,000 to over 600,000 per annum. Balancing this have been an estimated 3 million to 5 million illegal immigrants (not only from

Africa), who have a direct impact on retail sales.

A Growing Middle Class

Positive growth in the retail market during the last two to three years is largely due to the expanding middle segment of the consumer market, which has increased its share of the total population from 31% to 51%. The more affluent market has also increased from 16% in 2002 to 23% in 2012. Trading densities (turnover or sales) during this same period increased by between 5% and 8%, depending on the type of shopping center. Looking ahead, it is expected that the middle-class population will continue to expand, which will, in turn, continue to support retail sales.

Prospects for New and Existing Centers

The shopping-center industry in South Africa experienced strong growth between the late 1980s and 2000. However, even in the last five years, the total supply of shopping-center space has increased appreciably from 16.2 million square meters (sq m) to almost 21.0 million sq m—an annual gain of 5%.

Shopping centers above 30,000 sq m have had a particularly powerful effect on the retail landscape, increasing from 1.8 million sq m in 1993 to over 7.8 million sq m in 2012, representing average growth of 8.5% per annum. An additional 800,000 sq m will likely be added to the market in 2014 or 2015. This represents annual expected growth of about 4% per year between 2013 and 2015. That growth will come from a number of large

regional shopping centers on the edge of metropolitan areas. In most instances, however, these centers are located in fringe areas that do not have any major support from rural hinterlands and therefore will require new residential developments in the immediate vicinity.

Some of these new schemes will consist of infill development (where land becomes available in already built-up areas), which has a higher potential for success because of the ability to capitalize on existing infrastructure as well as large numbers of households already living near the proposed centers. In turn, these infill projects will act as catalysts for other commercial activities.

More than 90 shopping centers have been built in rural areas during the last 10 years; however, in spite of the fact that most suitable areas have already been developed, potential exists for an additional 20 to 30 rural centers during the next five to eight years. It is expected that some rural centers will expand to above 30,000 sq m, while many smaller schemes are planned for rural areas not yet serviced by formal retail centers.

The 1,800 existing shopping centers must remain competitive with a consumer-relevant tenant mix, excellent services and an attractive shopping environment. Future growth in already saturated areas of the country will depend on population and income growth, the internal expansion of existing retailers and the

demand for space from international retailers. The latter is becoming a major driver of demand for new shopping-center space, fueled by such companies as Zara, Topshop, Cotton On, Forever New, Louis Vuitton, Steve Madden, Lorna Jane, Roberto Botticelli and Wal-Mart.

Beyond the Borders

Some of the longer-term trends that will affect the country's retail real-estate market are: (1) Many global best practices have already been applied for building, leasing, managing and promoting a shopping center; (2) the domestic retail stock of shopping-center properties is excellent, but many of the key markets are highly developed; and (3) political and business risks are low. As such, South African developers and investors have an opportunity to leverage their knowledge beyond the borders of South Africa and play a leading role to further retail development throughout Africa.

Summary

Future growth in South Africa will result from strong leadership, socio-political stability, a further increase in the growing middle market and vigorous GDP growth that will create new jobs. The belief that South Africa is the stepping stone into the rest of Africa will also be responsible for new opportunities. The retail sector—currently the third most important contributor to the country's GDP—seems poised for continued growth, although at lower levels compared with the last 20 years.



After a career in the academic and corporate business world, **Dirk Prinsloo** established Urban Studies in 1990, which specializes in market-feasibility studies and property-market research. Urban Studies is recognized as one of the best-known urban market-research companies in South Africa, having completed more than 1,200 retail studies over the last 23 years, including primary research conducted After a career in the academic and corporate business world, **Dirk Prinsloo** established Urban Studies in 1990, which specializes in market-feasibility studies and property-market research. Urban Studies is recognized as one of the best-known urban market-research companies in South Africa, having completed more than 1,200 retail studies over the last 23 years, including primary research conducted at more than 240 shopping centers.

From the University of the Orange Free State, Dr. Prinsloo obtained BA, BA (Hons) and MA degrees, the latter two with distinction. He also completed D.Litt et Phil in 1983 at Unisa and a year later passed the property examination of the Board of Estate Agents. In 1988, he completed (with distinction) Unisa Business School's Advanced Executive Programme.

Dr. Prinsloo is a lecturer for various South African Property Owners Association (SAPOA) and South African Council of Shopping Centres (SACSC) courses, Technikon SA and a number of universities, as well as an external examiner for numerous master's and doctoral theses. He is also a regular guest speaker/contributor at conferences, newspaper editorials and radio discussions. A member of numerous organizations including the Editorial Board of ICSC's Retail Property Insights, Dr. Prinsloo has also been heavily involved in the SACSC: Vice President, 2004 to 2006; Chairman of the Research Committee, 2009 to 2013; and Chairman of the Research Conference Organizing Committee (2011-2014).

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Endnotes

¹ Laura Papi, "South Africa: The Battle for Jobs, Growth and Equality," IMF Survey Magazine: Podcasts, podcast audio, October 1, 2013, <http://www.imf.org/external/pubs/ft/survey/so/SinglePodcastHighlight.aspx?PodcastID=271>.