Urban LandMark

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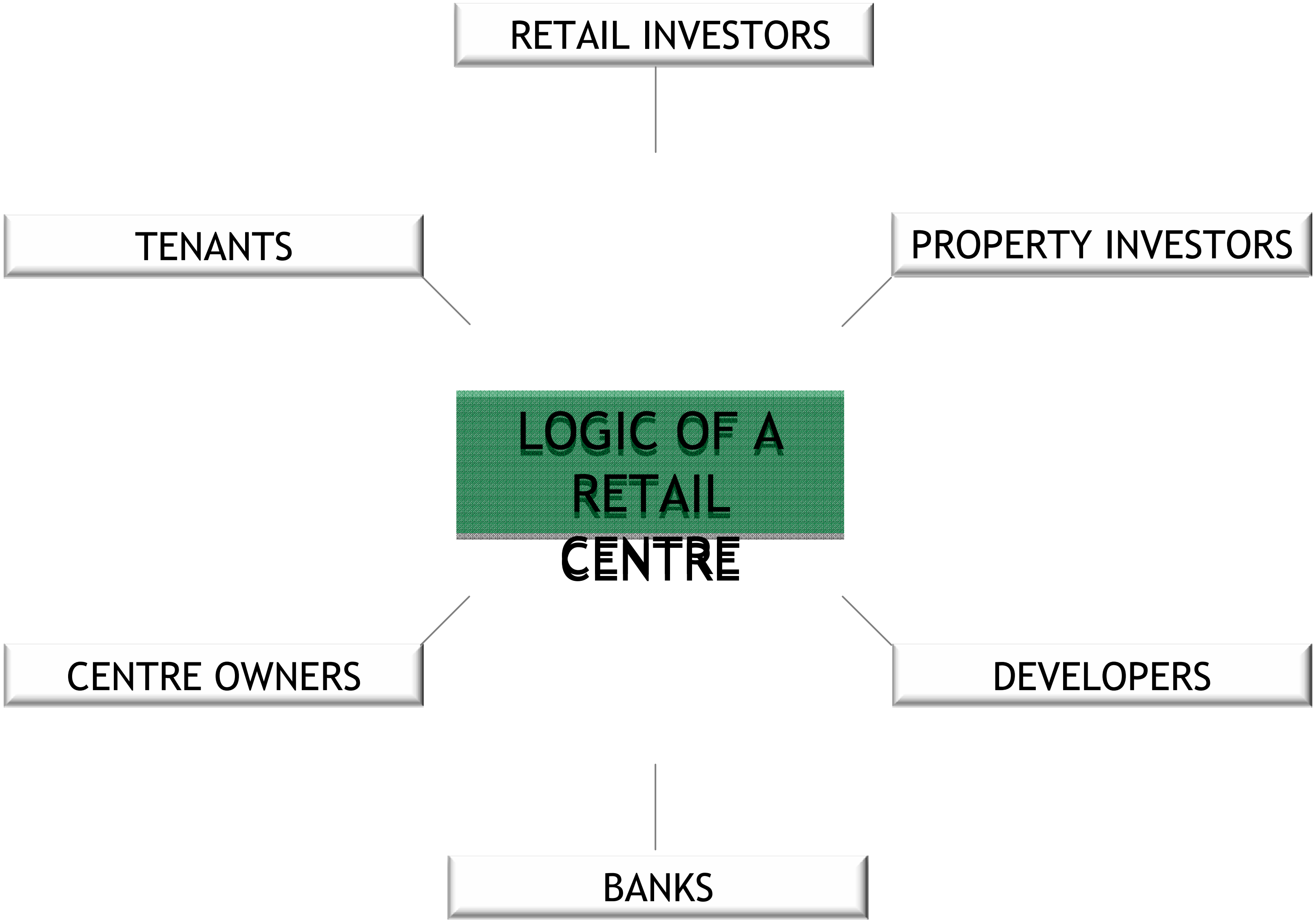
TOWNSHIP RETAIL STUDY

A STUDY OF THE IMPACT OF RETAIL CENTRES ON SECOND ECONOMY AREAS

MAKING URBAN LAND MARKETS WORK FOR THE POOR

INTRODUCTION

- Urban LandMark looks to make markets work for the poor in order for them to access affordable & well located opportunities within a city
- Urban LandMark therefore wished to investigate the impact of retail centres on second economic areas and commissioned Demacon Market Studies to undertake such a study


RETAIL INVESTORS
TENANTS
PROPERTY INVESTORS
LOGIC OF A RETAIL CENTRE
CENTRE OWNERS
DEVELOPERS
BANKS

RETAIL INVESTORS

•A company's objective is to create value for its shareholders

• Value created by increasing share price

• Share price increased by growing earnings

•Earnings boosted by either <u>increasing sales</u>, or reducing costs

•Companies are therefore under continuous pressure to expand turnover by rolling out more stores

RETAIL INVESTORS

"Our growth depends in part on our ability to open and operate new stores profitably.

One of our key business strategies is to <u>expand our base of retail stores.</u> If we are unable to implement this strategy, our ability to increase our sales, profitability, and cash flow could be impaired<u>. To the extent that we are unable to open and operate new stores profitably</u>, our sales growth would come only from increases in same store sales. We may be unable to implement our strategy if we cannot identify suitable sites for additional stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified employees."

(Edcon, 2010, Annual Report)

PROPERTY INVESTORS

- Investors invest in property for a number of reasons:
  - Diversify risk
  - Relatively low risk due to a predictable income stream (leases)
  - Inflation hedge

- Examples of investors include the Public Investment Corporation (PIC) who invest public officials' pensions

DEVELOPERS

- Developers require 3 things to develop a centre:
  - Accessible, serviced & zoned land
  - Short term finance
  - Buyers (long-term investors – see above)

•Return generated by maximising the difference between the development yield and the investment yield: e.g.

R60,000,000/R500,000,000 x 100 = 12% = development yield
R60,000,000/R670,000,000 x 100 = 9% = investment yield
Difference R170,000,000

BANKS

- Pre-let conditions:
  - 60-80% pre-let prior to construction commencing
  - Pre-let to “national” tenants – tenants that have shops in other centres and regions e.g. Pick ‘n Pay
  - “National” tenants have the ability to pay the rent regardless of the success of the particular store in the centre

CENTRE OWNERS

•Balance between charging maximum rental and ensuring the sustainability of a tenant's business

•The higher the gross rental, the more a centre owner can take off for rent e.g.

Pick 'n Pay – 18% gross profit – R50/m²

Jewellery – 200% gross profit – R250/m²

•Balance needs to be struck between having line shops and "nationals"

•Bargaining power of "nationals"

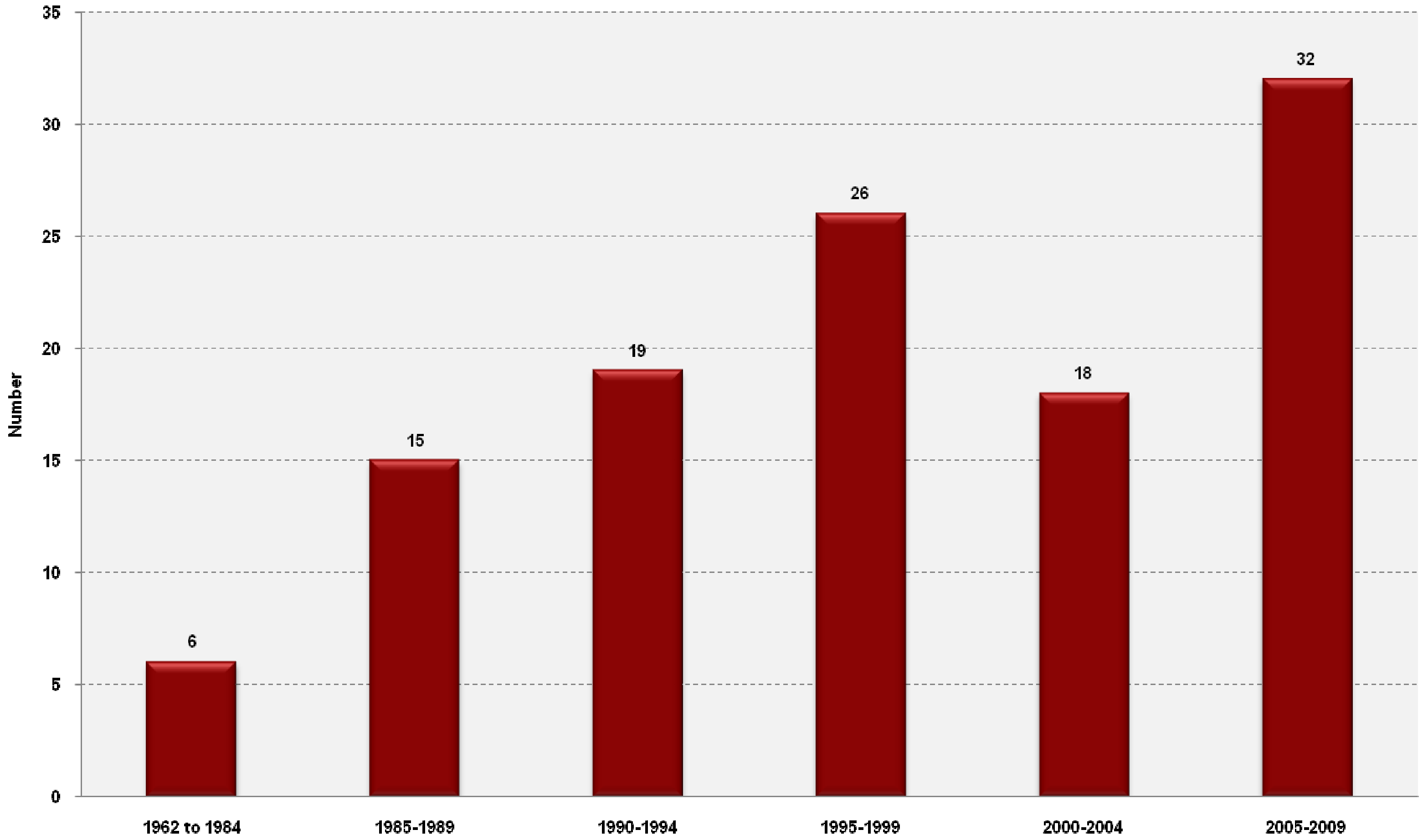
TENANTS

•Aim is to capture disposable income, this is dependant upon:

- Number of people within trade area
- Disposable income of these people
- Percentage of disposable income spent on each type of good
- Level of competition
- Drawing power of the particular centre

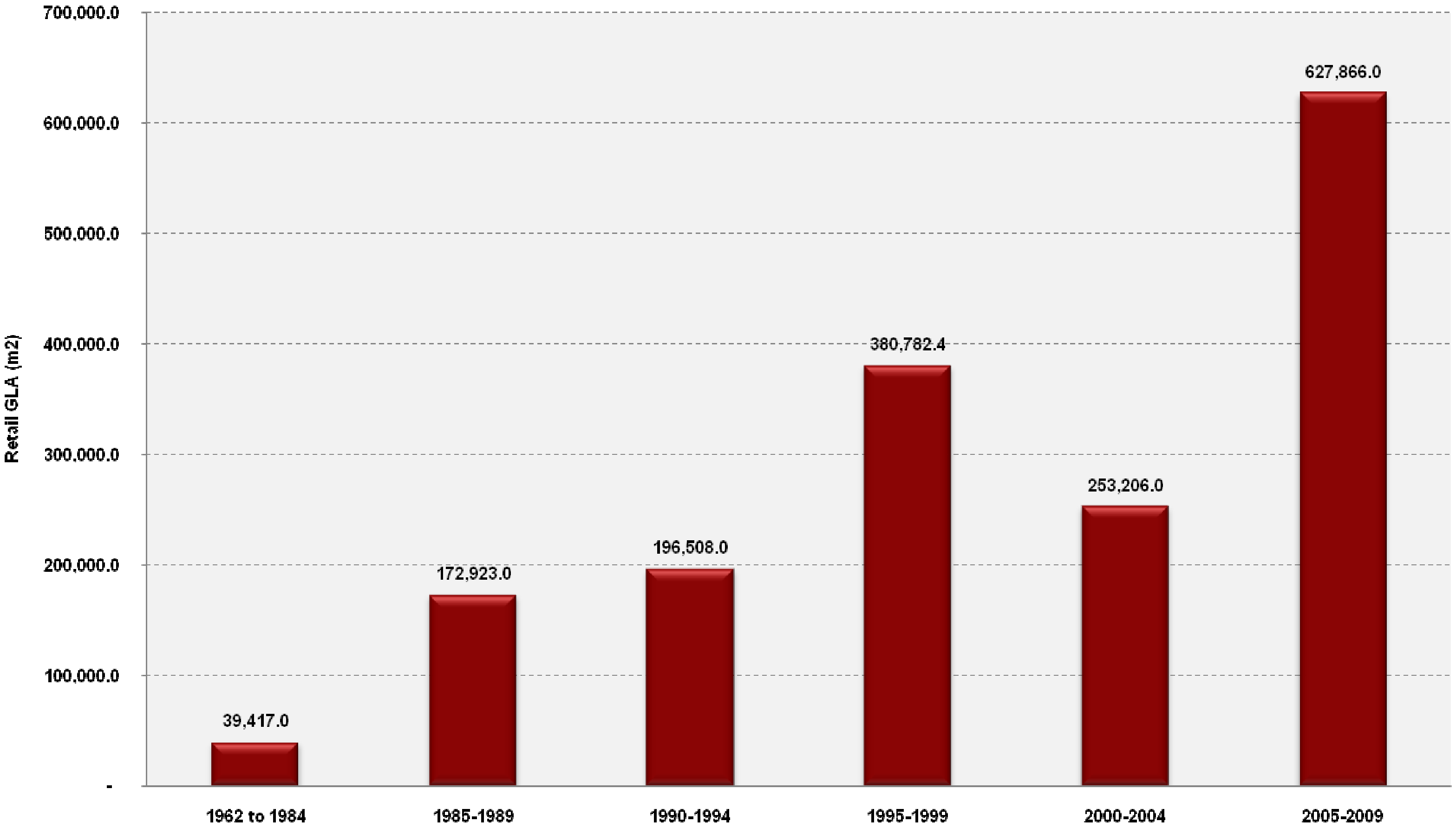
GROWTH OF CENTRES IN SECOND ECONOMY AREAS

NUMBER OF CENTRES IN SECOND ECONOMY AREAS



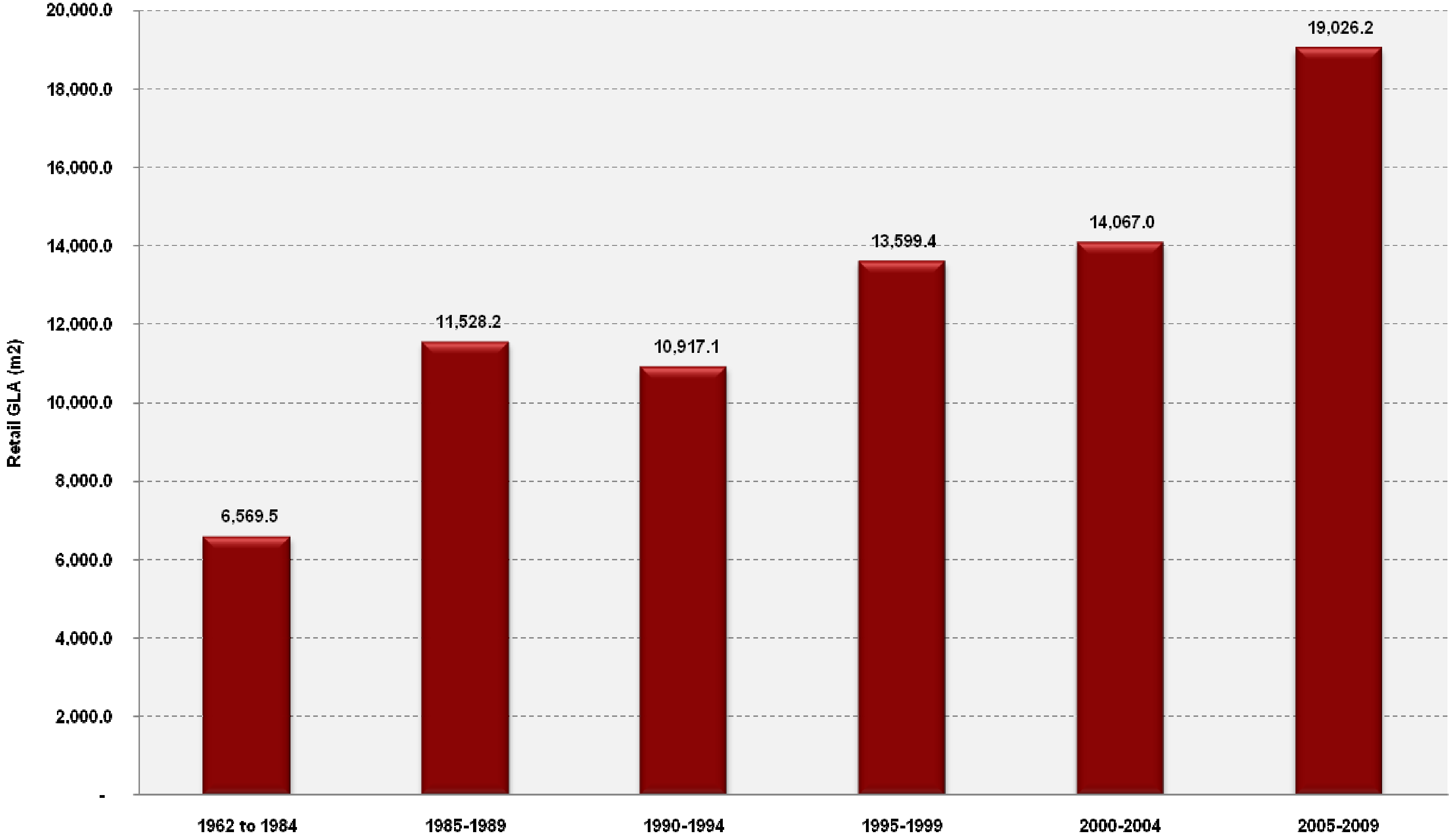
Source: Demacon, 2009

TOTAL RETAIL FLOOR SPACE DEVELOPED IN SECOND ECONOMY AREAS



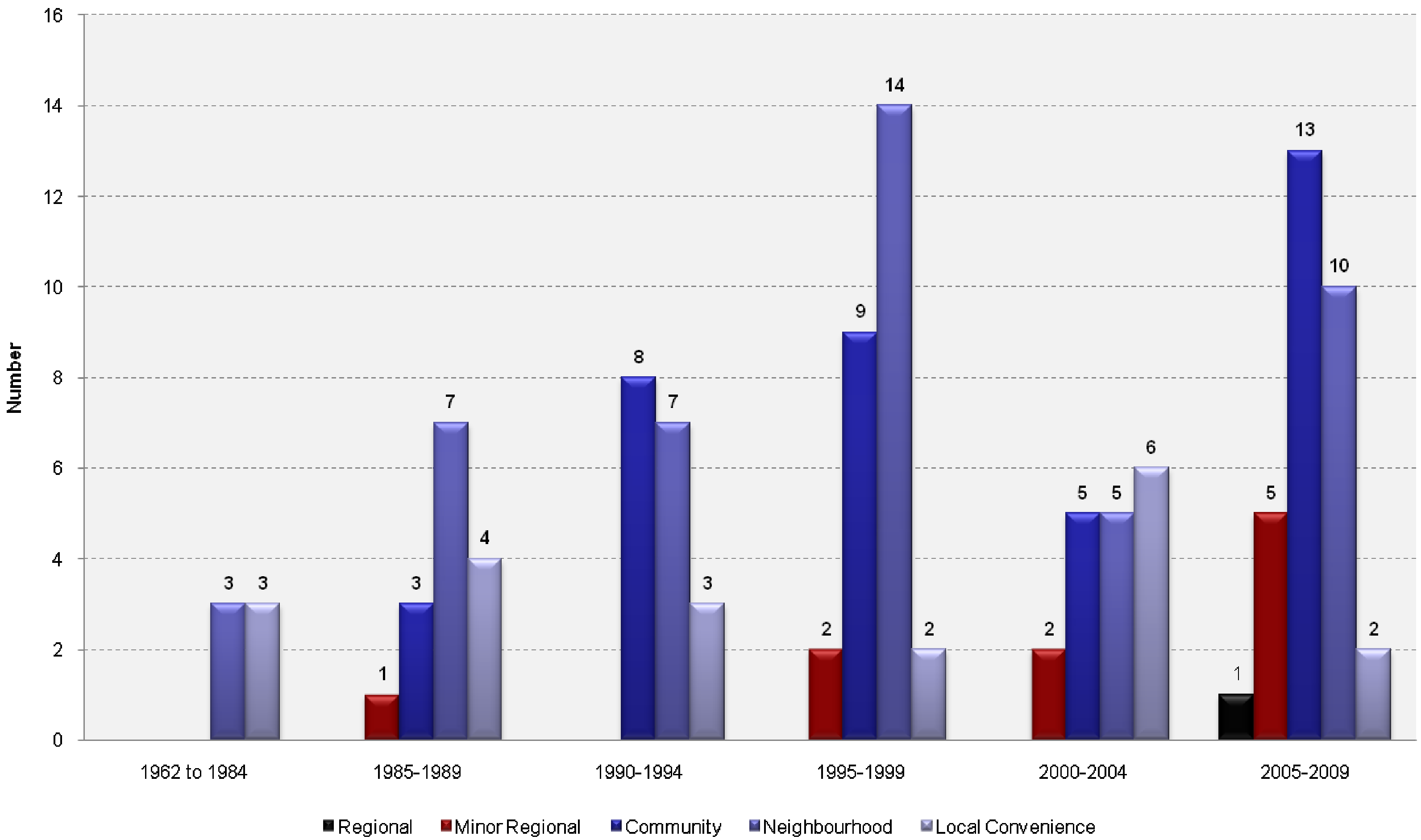
Source: Demacon, 2009

AVERAGE SIZE OF RETAIL CENTRES IN SECOND ECONOMY AREAS



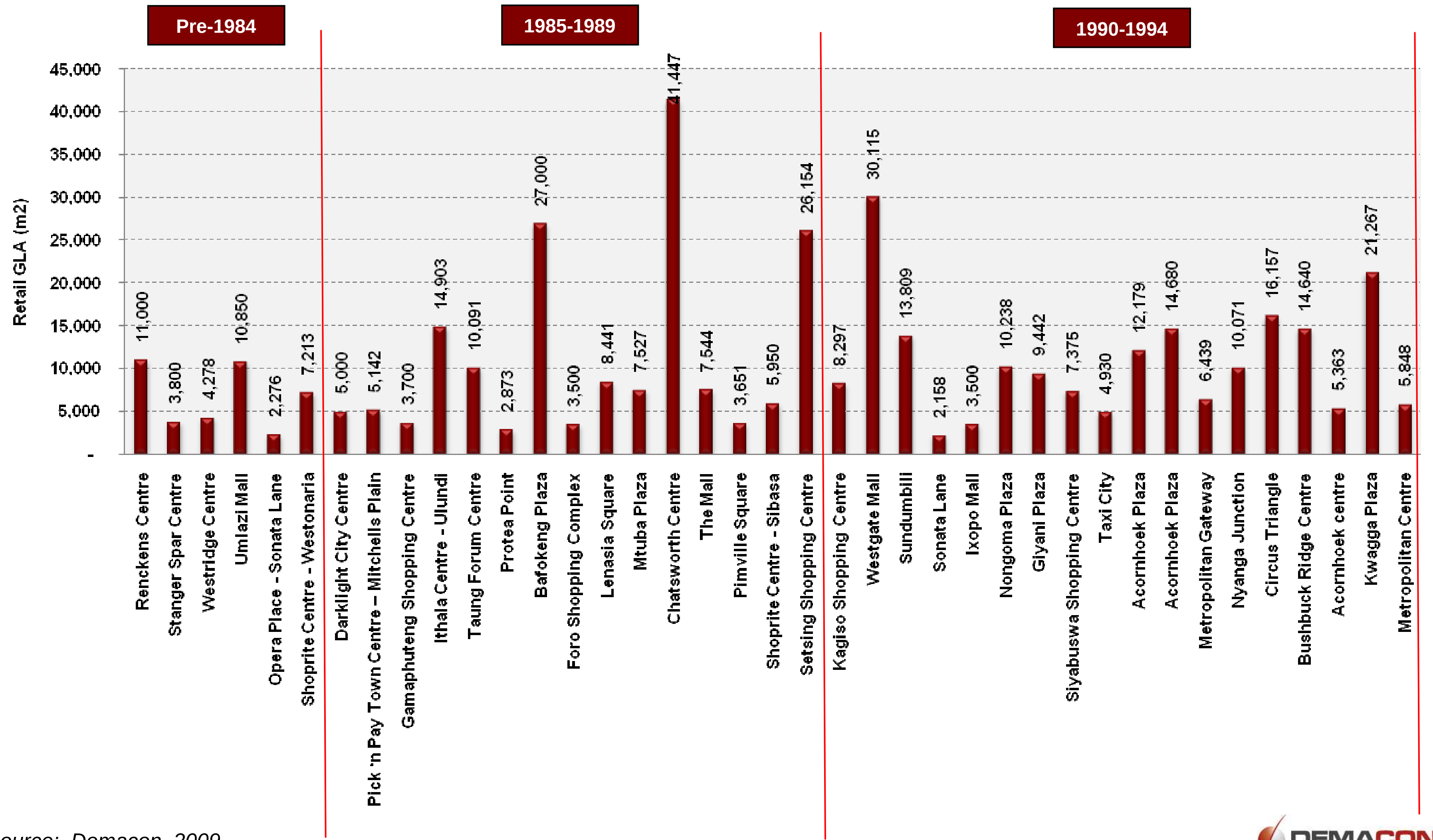
Source: Demacon, 2009

FUNCTIONALITY OF RETAIL CENTRES - NUMBER



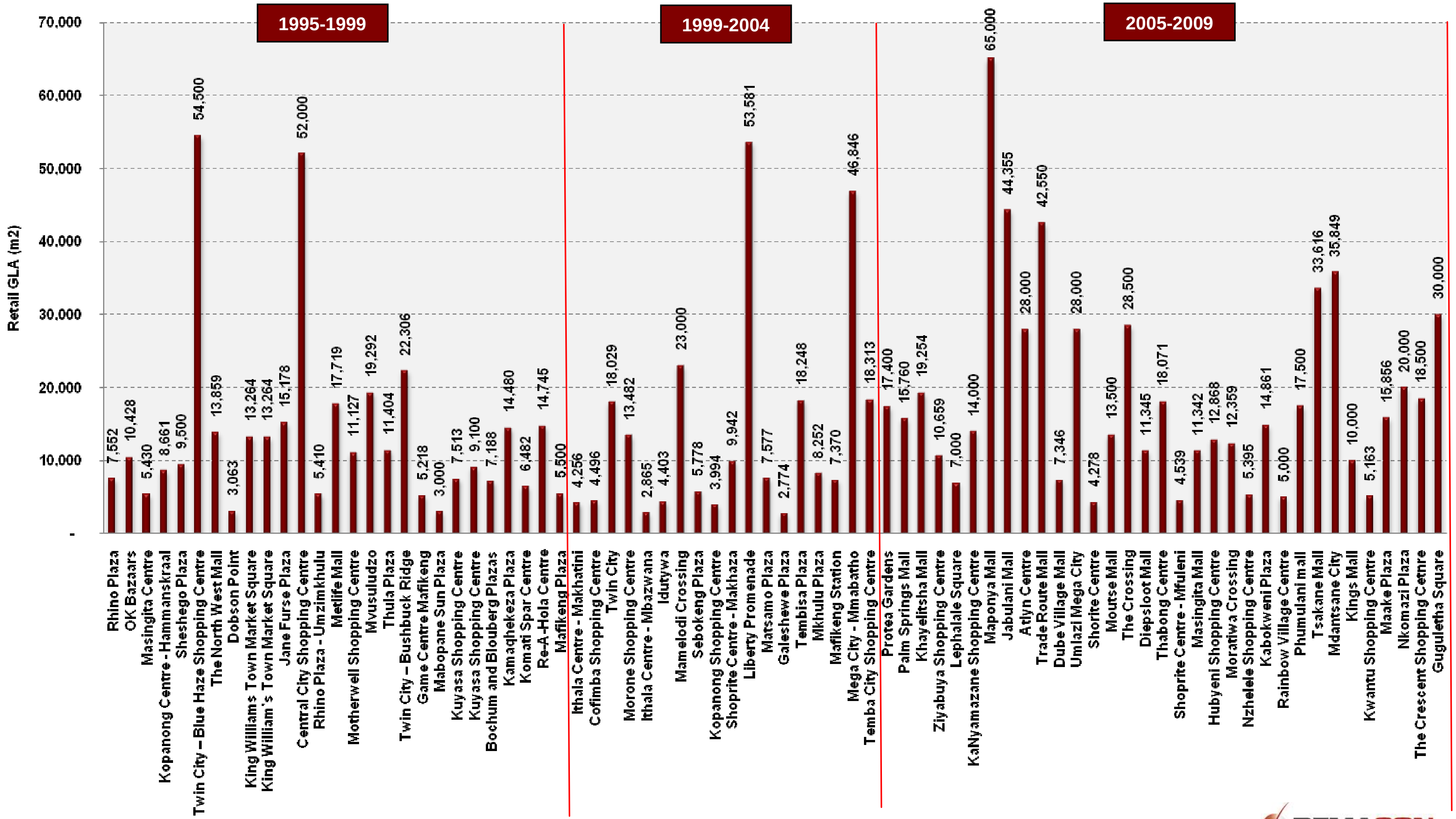
Source: Demacon, 2009

SHOPPING CENTRE DEVELOPMENT – 1962 TO 1994



Source: Demacon, 2009

SHOPPING CENTRE DEVELOPMENT – 1995 TO 2009



Source: Demacon, 2009

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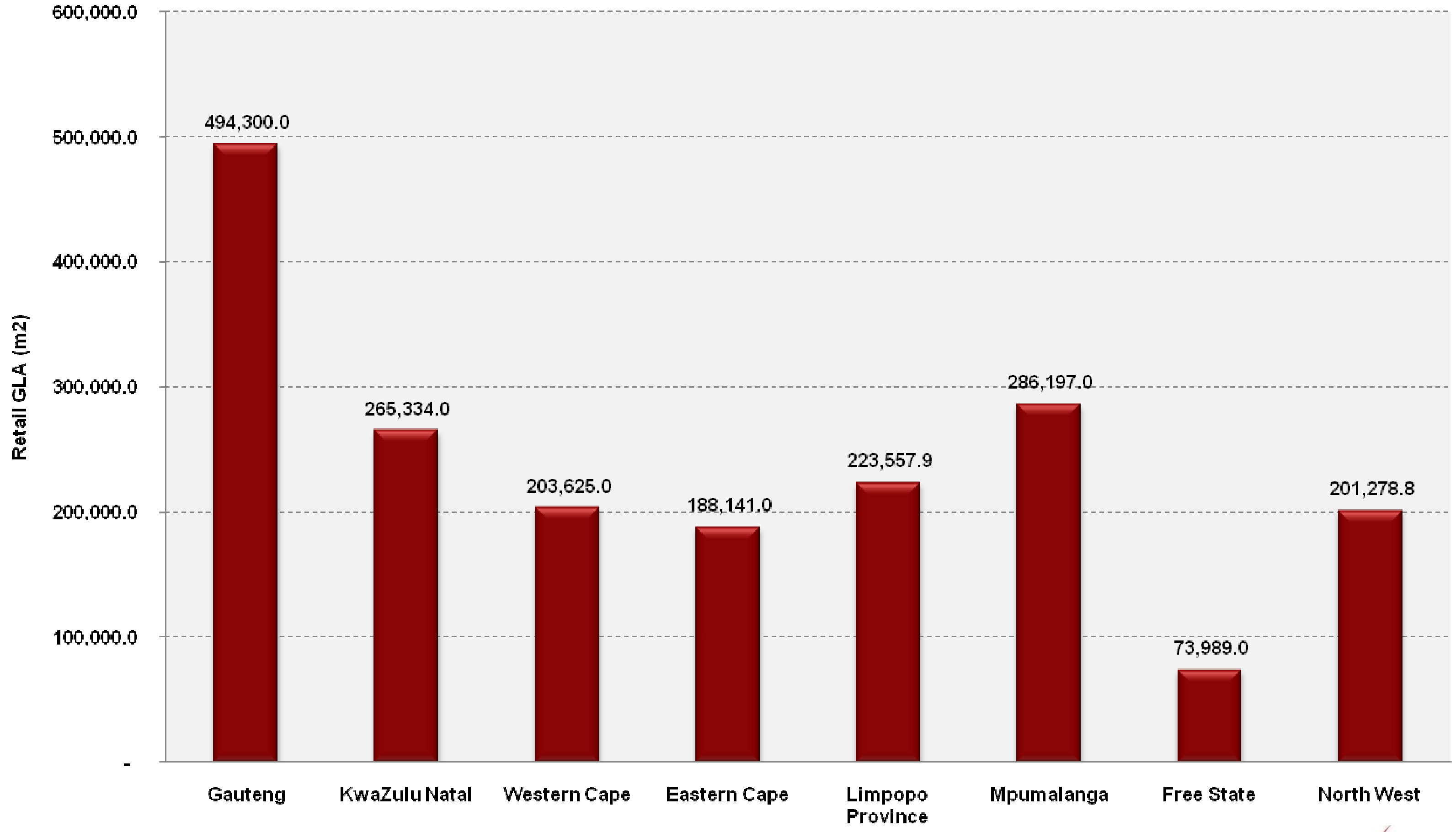
TOTAL RETAIL FLOOR SPACE CONTRIBUTED BY SECOND ECONOMY RETAIL CENTRES



Source: Demacon, 2009

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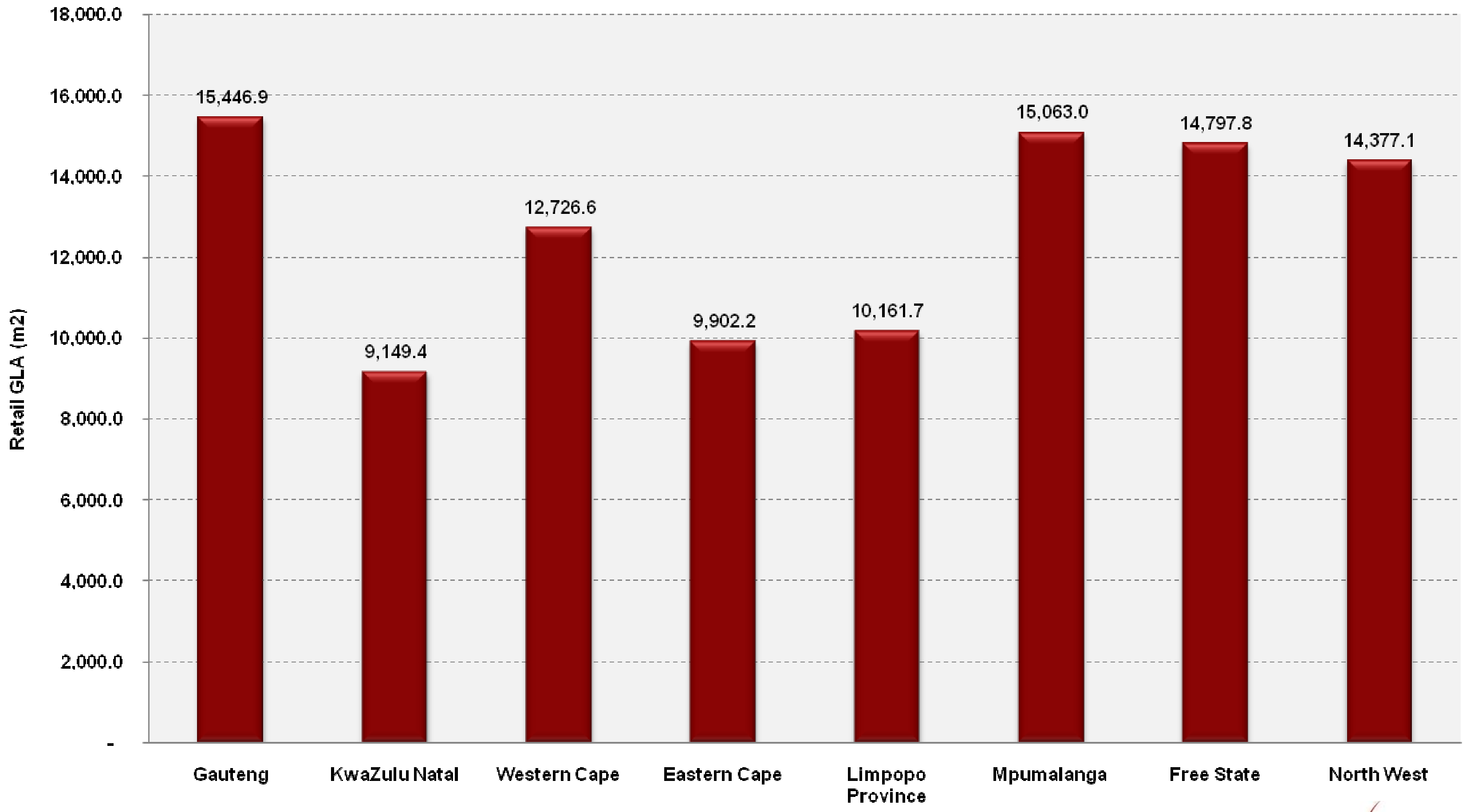
AVERAGE SECOND ECONOMY RETAIL CENTRE SIZE IN SECOND ECONOMY AREAS



Source: Demacon, 2009

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IMPACT OF CENTRES IN SECOND ECONOMY AREAS

LOCATION

LOCAL ENTERPRISES

IMPACT ON CONSUMERS

LEVELS OF SATISFACTION

COSTS

* *Results of a perception survey*

LOCATION

•50% or more of shopping conducted outside the area prior to development of the centre

•70+% reported an increase in local retail expenditure after the development of the centre

•Majority shopped less frequently outside of the area after the development of the centre

LOCAL ENTERPRISES

- ±23% of shopping conducted at local traders before the development of the centre. ±20% after the development of the centre

- 2-5% decrease in support of local traders after the development of the centre (also examples of increase)

- ±50% of consumers perceived that the development of the centre caused a decline in the support of local traders. However ±50% perceived there to be no impact

COSTS

•Transport costs to formal centres varied from centre to centre and decreased between 10% and 60%. Greatest reduction evident in non-metro areas

•30%-40% reduction in time taken to access formal centres

LEVELS OF SATISFACTION

•90%-95% rated the level of satisfaction with the new centre as being “acceptable” to “very positive”

•±50% rated the level of satisfaction with the new centre as “positive” to “very positive”

•70%-80% perceived the need to expand the new centre

LEVELS OF SATISFACTION

•Overall the centres were seen to offer:

- Higher levels of credit to the local community
- A safe and secure retail destination
- A variety of goods and services locally
- Improved the convenience of shopping locally
- Provides more affordable goods and services locally
- Provides quality goods and services locally
- Reduced local travel costs
- Reduced the average travel time

LOCATION

NATURE OF BUSINESS

IMPACT ON LOCAL ENTERPRISES

ENTRY BARRIERS

PERFORMANCE

OTHER IMPACTS

LOCATION

- Most important factors:
  - Safe & secure
  - Visibility
  - Proximity to banks & other services
  - Proximity to residential areas
  - Proximity to public transport routes
  - Proximity to public facilities
  - Pedestrian volumes
  - Low rentals

LOCATION

- Impact after development of centre:
  - Increased:
    - Levels of competition; proximity to public transport; pedestrian volumes (within 2km)

- Remained the same:
    - Access to banking facilities; safety and security; accessibility

  - Declined:
    - Pedestrian volumes (2km-5km)

NATURE OF BUSINESS

- Majority indicated no change in the nature of their business or the nature of their product/service offered

- Where the nature of the business did change, there was a move from a retail orientation to a more service based orientation

PERFORMANCE

INDICATORS	2km	2-5km
Employment	No change	No change
Profits	Slight increase	No change
Turnover	Slight increase	No change
Product Range	No change	No change
Stock Movement	No change	No change
Consumer Volumes	Varied	Varied

- Level of benefit from the centre:
  - Within 2km: no benefit to slight benefit
  - 2-5km: no benefit
  - Non-metro area: slight to major benefit

OTHER IMPACTS

•Factors impacting on business performance besides new centre:

- High levels of competition
- Lack of business support and planning
- Crime & stock theft
- Accessibility and visibility
- Lack of customer support
- Stock prices

ENTRY BARRIERS

- Factors Inhibiting your business to relocate to formal centre:
  - Lack of customers
  - Lack of funding
  - High rental
  - Inability to compete with “nationals”
  - Low profit margins & growth

- Levels of business planning:
  - Business Strategy - ±20%
  - Financial Records - ±35%
  - Marketing Plan - ±20%
  - Budget - ±35%
  - Business Plan - ±50%

KEY QUESTIONS

- Other impacts? e.g. Nodal development
- Given the benefits & costs – is it the correct model for a 2nd economy context?
- If it is the correct model, what are the success factors in terms of land, capital, statutory approval, market potential, business support, design...
- Given a centre's logic, what levels of intervention are possible to achieve developmental objectives ...without killing the centre?

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