

## Retail set for sparkling 2007

In spite of tighter economic conditions spurred on by a rising interest rate environment, the South African retail property market is still expected to deliver a good performance next year.

And fears early last year that the retailer-led development of new shopping centres in Gauteng, Western Cape and, to a lesser degree, KwaZulu-Natal, would lead to an oversupply of retail property have failed to materialise.

But offices and industrial property are expected to outperform retail property next year.

First National Bank property strategist John Loos says the total return on retail property would “slow mildly” next year, given that a slower growth year is expected in terms of consumer demand.

“But I don’t think it will be a bad situation and if one looks at it on a national basis, I don’t think there has been an oversupply of shopping space created.

“If you weighed up new space versus new demand, I think the 1990s were nearer to creating an oversupply (of new shopping centres) than now. What people must realise is that while shopping centre space has been created at a rapid pace over the past few years, your growth in retail sales has been far stronger in recent years than previously.”

Hyprop Investments MD Pieter Prinsloo says while retail property owners and retailers had expected a consumer spending slowdown this year, it “didn’t happen”.

“Consumer spend is still very strong. It will be interesting to see if we’ll have a slowdown (next year). An interest rate hike is expected in December. I am not sure what impact that will have on consumer spending because fuel prices have come down and taxes have come down.”

Prinsloo says retailers and banks have been on a “credit-extending drive” this year, which has driven consumer spending. “So far I don’t think there has been an oversupply of retail properties coming onto the market.”

Vacancies at retail centres are also still low. Hyprop Investments' vacancies, for instance, are at a record low of less than 2%. Its Hyde Park and The Glen shopping centres in Johannesburg are fully let.

The company is also busy with extensions to its flagship shopping centre, Canal Walk in Cape Town, because of the strong demand for retail space.

“At the moment, I think the retail property market will continue to perform strongly next year,” says Prinsloo.

As far as the retail oversupply question is concerned, he says most of the new shopping centres in SA are being developed in fast-growing residential areas where there is a strong need for retail facilities.

“Another thing which will prevent an overdevelopment of retail next year is the (increasing) building costs and lack of availability of zoned and serviced land for retail property development.”

Smaller retail centres are always more vulnerable than larger regional shopping centres in a tighter economic climate.

The smaller shops find it more difficult to carry vacancies if one of their shops closes down, while large centres have the “critical mass and size” to carry them, says Prinsloo.

Catalyst Fund Managers MD Andre Stadler says the group prefers not to look at retail property as a homogenous market.

“It is critical to evaluate individual retail assets in the context of their catchment areas, evaluating competing schemes, demographics for the area and growth prospects for the area and the risk of competing schemes attracting spend away from a specific centre,” says Stadler.

“We feel the consumer will still be there supporting retail, but we believe there could be a wide range of returns from individual retail assets.”