

MEDIA RELEASE FROM GROWTHPOINT PROPERTIES

16 May 2017

Know your retail dynamics and consumer markets!

An excellent understanding of markets and consumers is vital for successful retail property investment, and this is true whether investing locally or abroad.

This is the word from Stephan le Roux, Growthpoint Properties Retail Division Director, who was recently part of a panel focusing on retail abroad, hosted by the KwaZulu-Natal chapter of the South African Council of Shopping Centres.

Growthpoint is the largest South African primary listed REIT and is well on its way to becoming a leading international property company. It provides space to thrive with innovative and sustainable property solutions in a diversified portfolio of 533 properties it owns and manages, including 473 properties in South Africa, 59 properties in Australia through its investment in Australian Stock Exchange listed Growthpoint Properties Australia and a 50% interest in the properties of the V&A Waterfront, Cape Town. It also owns a 26.9% stake in the €1bn property portfolio of London Stock Exchange Alternative Investment Market-listed Globalworth Real Estate Investment, the largest owner of office space in Romania.

Growthpoint has successful international investments in the office and industrial sector, but it has yet to enter the international shopping centre investment arena.

“Retail is much more than investing in bricks and mortar. It is one of the most difficult investments to make successfully,” explains le Roux.

He adds that with the economy looking rather depressing in South Africa, the allure of offshore property investment is stronger than ever. However, he cautions that investing in malls and shopping centres abroad certainly isn't simple or straightforward.

“The motivation behind many South African companies investing in property overseas is simple: the positive spread between yields and funding costs of properties in Eastern Europe - a real estate investment destination that has most recently become a favourite with South African property companies -- and, to a lesser extent, in Western Europe, are significantly better than in South Africa,” notes le Roux.

For a prime shopping centre in South Africa today, assuming you can get one, you are going buy at a 6% to 7% yield. However, you can develop in Eastern Europe for close to 9%. You can buy at yields slightly better than 7%. However, the real advantage is that you can fund your investment at rates around 2,5% to 3%. This creates a positive spread between the yield and cost of your capital.



This favourable dynamic does not exist in South Africa in the current market. Today, if you want to buy any decent retail property asset, you will have to subsidise the property income to the tune of about 2%. You effectively have to wait two or three years before the income from the property is equal to its cost of funding.

“Without a doubt, moving into other international markets can give listed property companies a great boost, especially during the first year of investment,” says le Roux. However, he cautions that even with these benefits, it is vital to understand the dynamics in these foreign markets and know local consumers. Looking at an asset in isolation of these factors is a mistake.

He believes the property industry in South Africa still seems to be coming to terms with understanding its own consumer markets.

“There is a lot of data and analysis, but few seem to be able to get to the heart of it. Looking at shopping centres that have been coming up in South Africa, they are being developed on the back of research and surveys. All these centre’s sites should have been rated 70% or over to be successful, but many clearly aren’t successful,” points out le Roux, referring to the oversupply of retail space and cannibalisation, which has become plain in some areas.

He also highlights that we have to accept, at some point, that South Africa is essentially fully developed for shopping centres. “There shouldn’t be a burning need to continue to develop,” stresses le Roux.

Overdevelopment comes at a high price. The information coming out of the USA, for example, is dismal with 8,000 projected store closures during 2017. It is estimated that 30% of its shopping centres will close in the next five years.

“Retail is a dynamic and changing industry,” comments le Roux.

When considering the rise in competition from e-commerce, le Roux feels that we are perhaps fortunate that South Africa has huge logistical problems. However, in countries like the USA, with more efficient delivery systems, bricks-and-mortar retail has lost a lot of growth in consumer spend to the likes of Amazon.

“We are an industry that is under pressure, and we are going to remain under pressure. I think we are going to have to look elsewhere for new retail investments. The big question is where?”

While it isn’t easy to invest successfully in unfamiliar developed markets, it has also proven difficult to make retail developments work in emerging markets. This includes other countries in Africa and in India, even with their emerging market synergies and notwithstanding that South Africans have everything that it takes to deliver successful shopping centres in these markets.

Wherever retail property investment is focused, Le Roux emphasises that looking at the shopping centre asset alone isn’t enough to make a well-informed investment decision.

“You need to look at what happens around the asset, the habits, travel patterns, beliefs, and preferences of people in its catchment area,” reveals le Roux. “There are so many intricacies that go into the success of shopping centres, and it is essential to be very careful and thorough when looking at unfamiliar markets, whether they are in another city, province or country.”



/ends

RELEASED BY:
Growthpoint Properties Limited
Stephan Le Roux, Divisional Director - Retail Portfolio
011 944 6279
www.growthpoint.co.za



marketing concepts

MEDIA RELEASE distributed by **Marketing Concepts**

1st Floor, Wierda Court, 107 Johan Avenue, Wierda Valley, Sandton

T +27 (0) 11 783 0700 