Day 3: Retail & Service Market Trends

Francois Viruly
Retail and Service Sector Markets

2007

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University of the Witwatersrand
School of Construction Economics and Management
<table>
<thead>
<tr>
<th>Capital Markets</th>
<th>Development Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>The User</td>
<td>Land Market</td>
</tr>
</tbody>
</table>
DIMENSIONS OF LAND USE

SOCIAL DIMENSION

Economic/Market Dimension
Maybe We Need To Start Thinking Differently

- Town Planning
- Servicing
- Building
- Occupation
The Research Methodology

Step I
- Mega Trends in the Property Market

Step II
- Economic Activity & Profile

Step III
- Supply Analysis
  - Existing Inventory
  - Forecast Supply
- Demand Analysis
  - Existing Demand
  - Forecast Demand

Step IV
- Equilibrium / Gap Analysis
  - Rentals
  - Vacancies
  - Type of Market

Step V
- Marketability of the Site / Development
  - Characteristics of site / development
  - Fit of the development in the market
  - Potential market share
  - Potential take-up
  - Size of the development
SA Scenarios

- **“CUBA”**
- **“VIVA”**
- **WEAK ECONOMY**
- **STRONG ECONOMY**
- **“The Way we were”**
- **“India”**

Inclusive Housing

Asgi SA / JIPSA/BBBEE

EXCLUSIVE
NEW CITIES OF GOLD

Small towns becoming bustling hubs ➤8
Number of people on social grants
“That’s Worth R62,2 Billion”
The Commercial Ladder
Consumption growth
Household Consumption Expenditure (HCE)
Black middle class approximately 2.6m, increased by 30% in past two years. Earning more than R 4’000 per month

Black middle class living in suburbs increased from 23% in 2005, to 47% in 2007.

% living in Townships decreased from 77% too 53%. Or 12’000 families a month moving out.

Black middle class responsible for 30% of consumption expenditure.

Between 2004 -2006 there was a 91% increase (84’000 new entrants), in the number of black adults with personal incomes of R12 000 or more a month.

The buying power in the townships dropped by 15% in the past two years (UCT/Unilever)
Starting up the Property Market – The Secondary market is Critical
The Changing Township Built Environment
The Distribution of Shopping Malls (10,000m² +)

- SANDTON CITY
- EASTGATE
- MIDRAND CITY
- BRYANSTON
- NORTHGATE
- CRESTA
- ROSEBANK MALL
- CARLTON CENTRE
- SOUTHGATE
- DOBSONVILLE
- WESTGATE

1991 - 2002
PRIOR TO 1991
1991 - 2002
## Township Shopping Centre Developments

<table>
<thead>
<tr>
<th>Centre</th>
<th>Node</th>
<th>Size (sqm)</th>
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</thead>
<tbody>
<tr>
<td>Altridgeville Mall</td>
<td>Altridgeville</td>
<td>20,000</td>
</tr>
<tr>
<td>Pan Africa</td>
<td>Alexandra</td>
<td>12,000</td>
</tr>
<tr>
<td>Jabulani Mall</td>
<td>Soweto</td>
<td>43,000</td>
</tr>
<tr>
<td>Maponya Mall</td>
<td>Soweto</td>
<td>58,500</td>
</tr>
<tr>
<td>Orlando Power Station</td>
<td>Soweto</td>
<td>24,000</td>
</tr>
<tr>
<td>Diepkloof Plaza</td>
<td>Soweto</td>
<td>15,000</td>
</tr>
<tr>
<td>Sontonga Mall</td>
<td>Katlehong</td>
<td>16,000</td>
</tr>
<tr>
<td>Tembisa Village</td>
<td>Tembisa</td>
<td>12,000</td>
</tr>
<tr>
<td>Philani Valley Shopping Centre</td>
<td>Umlazi</td>
<td>10,900</td>
</tr>
<tr>
<td>Umlazi Mega Mall</td>
<td>Umlazi</td>
<td>28,000</td>
</tr>
<tr>
<td>Mdantsane Mall</td>
<td>Mdantsane</td>
<td>35,000</td>
</tr>
<tr>
<td>Tsakane Mall</td>
<td>Tsakane</td>
<td>32,000</td>
</tr>
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</table>
The Changing face of Townships

Orlando eKhaya:

Thousands of Soweto residents commute on a daily basis to workplaces elsewhere in the Joburg Metro area. Orlando eKhaya is a major precinct development that aims to keep and attract shoppers and people to Soweto. By Engelza Meyer.

Middle-class house boom transforms ramshackle Soweto

A neighbourhood associated with burning tyres and protests has become Johannesburg’s hottest property market, says John Reid. A house near Orlando West Station, the site of recent clashes, recently sold for R3.3 million.
- Soweto is not homogeneous
- 15% in LSM 8/9
- Precarious relationship between new entrants, older residents and those that moved out to previously forbidden suburbs
- 1.5 Million People
- 4.3 Bn Rand of annual retailing potential – 25% in Soweto
- Social Grants
New Centres
Houses cost more as prices outpace growth in income

- There is a move towards trading down of properties
- CBD Properties grow in importance, but at the lower end of the market
- Trading off transport costs, commuting time and Property Values
- The Rental Market becomes more important in all sectors

Poorer provinces have it hardest

Houses become less affordable as incomes drop
“Cities support 50% of the population, but they consume in excess of 75% of Energy”

- Improve indoor quality of life:
- Save water:
- Conserve Energy
  - Control of light
  - Motion sensing
- Build Green
- Pick a sustainable site “Brownfields receive greater attention”
The Social Drivers

HOME  EDUCATION

WORK  PLAY
Looking Ahead

- The state plays a more important role, through non core businesses.
- Mixed use developments grow in importance.
- The listed sector consolidates.
- Funds start looking offshore.
- A listed residential fund.
- Funds start increasing exposure to property market – say to 10% (PIC R70 Bn)
## Total Return

*Source: SAPIX/IPD*

<table>
<thead>
<tr>
<th>Total Return</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
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<tbody>
<tr>
<td>Retail</td>
<td>23.0</td>
<td>9.1</td>
<td>17.9</td>
<td>10.4</td>
<td>13.4</td>
<td>11.0</td>
<td>17.4</td>
<td>26.1</td>
<td>32.6</td>
<td>27.4</td>
</tr>
<tr>
<td>Office</td>
<td>12.8</td>
<td>1.6</td>
<td>9.5</td>
<td>12.7</td>
<td>7.8</td>
<td>5.1</td>
<td>8.5</td>
<td>16.7</td>
<td>25.6</td>
<td>24.5</td>
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<tr>
<td>Industrial</td>
<td>16.8</td>
<td>2.1</td>
<td>8.3</td>
<td>7.1</td>
<td>7.5</td>
<td>8.8</td>
<td>17.5</td>
<td>24.4</td>
<td>33.0</td>
<td>31.1</td>
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<tr>
<td>Other</td>
<td>18.1</td>
<td>5.1</td>
<td>24.9</td>
<td>16.6</td>
<td>10.0</td>
<td>20.5</td>
<td>25.4</td>
<td>27.5</td>
<td>24.7</td>
<td>22.0</td>
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<tr>
<td>Property</td>
<td>17.5</td>
<td>5.1</td>
<td>13.7</td>
<td>11.2</td>
<td>10.6</td>
<td>9.5</td>
<td>15.1</td>
<td>23.4</td>
<td>30.1</td>
<td>26.7</td>
</tr>
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Vacancies per sector
(IPD)

Retail
Office
Industrial


%
Decentralized (A & B) - Vacancies

Source: SAPOA
Some Concepts

◆ Vacancy Rate
  ◆ Amount of space in the market that is not occupied
    o Total Stock
    o Amount of space that is vacant.
    o Space under lease but vacant should be considered
    o This is the equilibrium indicator
    o Some vacancy will exist in the market
  ◆ The Natural vacancy rate
    o “When vacancy rate is below the natural rate, rents will tend to be driven up (and new developments tend to occur). When vacancy is above the natural rate rents will tend to be driven down”
Absorption

Gross Absorption;
“measures the total amount of space for which leases were signed during the year, regardless where they came from”

Net Absorption;
“The net change in the amount occupied space in the market”
<table>
<thead>
<tr>
<th></th>
<th>Dec 2003</th>
<th>Dec 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rentable</td>
<td>1’012’128</td>
<td>1’043’901</td>
</tr>
<tr>
<td>Available</td>
<td>149’309</td>
<td>120’711</td>
</tr>
<tr>
<td>Occupied</td>
<td>862’819</td>
<td>923’190</td>
</tr>
<tr>
<td>Take up</td>
<td></td>
<td>60’371</td>
</tr>
<tr>
<td>Monthly</td>
<td></td>
<td>26 mnth</td>
</tr>
<tr>
<td>10% Vac</td>
<td></td>
<td>20 mnth</td>
</tr>
<tr>
<td>‘02/’03</td>
<td></td>
<td>65 mnth</td>
</tr>
</tbody>
</table>
The “A & P” Grade Rental Gradient
R/sqm Q4 2006
### A CHANGING CBD OFFICE ENVIRONMENT

<table>
<thead>
<tr>
<th></th>
<th>1st Q 1996</th>
<th>1st Q 2001</th>
<th>1st Q 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Grade</td>
<td>1’216’300</td>
<td>1’325’232</td>
<td>713’200</td>
</tr>
<tr>
<td>B Grade</td>
<td>514’000</td>
<td>398’574</td>
<td>632’345</td>
</tr>
<tr>
<td>C Grade</td>
<td></td>
<td></td>
<td>288’367</td>
</tr>
<tr>
<td>Total</td>
<td>1’730’300</td>
<td>1’723’806</td>
<td>1’633’912</td>
</tr>
</tbody>
</table>
Inner CBD Housing

- Social Facilities
- High Rise Living
- Closer to Transport
- Affordability
- Contested Commercial vs Residential
- UDZ Incentives
Value Components

The Project

- Physical
- Legal
- Society

The Market

- Rentals
- Cap rates / discount rates
- Vacancies

Costs

- Building costs
- Land prices
- Escalations
- Interest rates
GDFI By Building Sector

Source: BER

![Graph showing GDFI By Building Sector from 1990 to 2006. The graph compares non-residential and residential buildings, with a rise in R million from 1996 onwards.](image-url)
Decentralised New Office Developments (Jhb)

Source: SAPOA
The Real Estate Clock

BOOM MARKET
- Excess Funding
- Overbuilding
- Rent Concession
- Saturated Market
- Tightened Funding
- Less Construction
- Reduced Funding

RECOVERY
- Funding Available
- Increasing Construction
- Increasing Rents
- Stabilizing Rents

RECESSION
- Increasing Absorption
- Minimal Construction
Counting Buildings
The Legislative Environment

- **The Property Charter:**
  - Economic Transformation
  - Unlock obstacles to ownership
  - Promote investment in under-resourced areas
  - Change the composition of ownership, control and management
  - Skills development
    - 30% black people in senior management
    - 15% black women in Senior Management
  - Procurement
    - 70% from BBBEE.
    - 40% from level 1-4.
Policies and Bills ..

- **Rental Housing Amendment Bill, 2006**
  - Rental Tribunals, decide on evictions.

- **Draft Social Housing Bill, 2006**
  - Create a sustainable Social Housing Environment.
  - Social Housing Regulatory Authority (SHRA)

- **Housing Consumers’ Protection Measures Amendment Bill (HCPMAB)**
  - Who is and who is not a builder
  - Regulate individuals or companies that build homes.
  - Conveyancer needs to make sure that the builder is registered with NHBR, before registration of a mortgage.

- **Immovable Asset Management Bill, 2007**
  - Government Asset Management Bill, 2007
  - Will influence how government uses its assets.

- **Municipal Property Rates Act**
  - Rating on land and Improvements
  - Rating every four years

- **National Credit Act**
  - Full credit history
  - Expenses
  - Move to Rental Market
Policies & Bills

- **National Environment Waste Bill**
  - The disposal of waste
  - Littering

- **Inclusionary Housing**
  - Mixing high and low cost housing
    - Infrastructure
      - Finding a voluntary solution

- **Foreign Land Ownership**
  - Is this a town planning or ownership issue?
  - The purpose remains unclear

- **Amendments to the Provision of Land assistance Act of 1993**
  - Land First offered to the public sector
Policies and Bills ..

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◆ City Network Project
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