BIZCOMMUNITY

Shopping mall recovery on track as footfall grows - Redefine

JSE-listed REIT Redefine Properties says retailers are starting to sign longer leases again in lockstep with increased footfall at its properties, calling it a strong indication that South Africa's post-Covid-19 recovery is on track.

Kenilworth Centre. Source: Redefine Properties

Redefine Properties, which owns shopping centres including Blue Route Mall, Centurion Mall, Kenilworth Centre and Matlonsana Mall, reports that sales or total turnover across its retail portfolio is already in excess of pre-Covid-19 levels. The company forecasts this growth to continue, driven by essential services, apparel and a recovery of entertainment in shopping centres.

“The negative lease renewal reversions have already started improving and the continued growth of retail sales will see this trend continuing in 2023. Total foot count is now at 94% of pre-Covid levels, with a 2% growth on the prior year. This is an improvement from the average of 80% seen throughout the year when compared to pre-Covid levels,” says Nashil Chotoki, Redefine’s national retail asset manager.

However, this does not mean the economy is out of the woods yet as rising interest rates and inflation for costs like food, fuel and electricity will suppress disposable income of the consumer.

“Consumer loyalty to shopping centre and brands will be more strongly driven by environmental and community support initiatives. I expect consumer support to grow for locally manufactured brands such as Bathu and Drip and locally manufactured will influence spending behaviour,” says Chotoki.

“Most Gauteng residents travelled out of Gauteng for their holidays and therefore the large format centres in Cape Town had better total footfall and footfall growth than those in Gauteng, while KwaZulu-Natal was muted on the back of the current water quality challenges in the province,” says Chotoki.

“To me, these trends indicate that foot count will, on the whole, continue to remain below pre-Covid-19 levels for the short term as some stores are still struggling to fully recover and the recovery is not equal across regions, or business types, but foot count recovery of large format centres will continue due to the appeal of one-stop-shop solutions,” he says.

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Key trends

Sit-down restaurants were the most impacted by Covid-19 but Redefine has recorded a recovery of this category to pre-Covid levels. However, Chotoki says the increased operating cost for owners has impacted profitability for this category.

Among other interesting trends, cinemas showed positive growth driven mainly by specific popular content releases from Hollywood and this may start to change the trend back towards cinemas driven by the focus on value-focused entertainment.

Sales growth in workwear/formal wear is expected to continue as more workers return to the office.

Load shedding and cost associated with backup power continues to dampen the outlook. “This will continue to impact margins for property owners and retailers who will not be able to pass this onto constrained consumers,” says Chotoki.

Other key trends to watch include mergers and acquisitions by listed retailers, while diversity in products into new retail concepts and brands, such as Checkers Outdoor, Checkers fashion, TFG Outlet, Mr Price Baby, is set to continue.

While online sales will continue to be part of the retail landscape, especially for staples and electronic products, Chotoki says it will be interesting to see how consumers adapt when Amazon brands join the fray.

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23 Nov 2022

Focus on value

In this environment, Redefine says it will continue to work closely with independent retailers to develop their brands. “Our Smarten programme has already achieved good results, with Kyalami Corner in the last financial year achieving a trading density increase of 30.5%. Another 150 tenants have been identified to participate in the programme for the 2023 financial year.

“Redefine has increased exposure to value and essential services retailers by 21,720m and now occupy 20% of retail GLA with the plan to further increase this to 25% in the short term.”

The company is also looking at initiatives to reduce diesel consumption during load shedding and reduce the cost impact this has on retailers, in line with broad energy-saving initiatives across the retail portfolio.

Minimising impact of war in Ukraine

Agata Sekuła, board member responsible for investment and asset management at Polish retailer EPP (acquired by Redefine in February last year), says EPP ended 2022 with tenant turnover in most categories above 2019 and footfall approaching pre-pandemic levels.

However, the pandemic affected all landlords and the war in Ukraine then further shook economies again. A noticeable trend was rising demand for value retailers and retail parks. “We addressed this trend with opening a retail park in Galeria Twierdza in Zamosc in November, and we already see a positive footfall growth. A number of value retailers have also been introduced to many of our shopping centres,” says Sekuła.

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The increase in the maintenance costs of shopping centres due to rising energy prices, wages and inflation, however, remain the key challenge.

“To address it and save energy, we have already implemented changes in our BMS systems optimising equipment’s operations. We installed LED lighting and invested in photovoltaic panels. We also educate and promote the idea of a responsible use of resources among our employees and tenants,” says Sekuła.

These and other efforts have already resulted in a saving in electricity consumption in the common areas at EPP-managed retail properties of around 15% on average compared to 2019.

Along with ESG, Redefine notes that another leading trend in the sector’s development in 2023 will be in the omnichannel space – combining online and offline for a better performance to give customers an opportunity to buy where, how and when they want.