

Is experiential retail delivering for SA malls?

As more and more trading takes place through an online channel with a consequent reduction in comparative trading densities, we can expect a shift in how malls inform their key metrics such as tenant mix and rent-to-turnover ratios, states a new research report commissioned by the South African Council of Shopping Centres (SACSC).



Titled *Experiential vs Convenience Malls – Tenant mix driving mall strategy?* the report was conducted on behalf of the SACSC by MSCI, to get insight into the growth of experiential retail in the local mall marketplace. It examines the changes in tenant categories over the last 3 to 5 years in South Africa. It also questions whether large format malls are becoming more experiential, and smaller malls more functional and convenience-focused.

In its research, MSCI's analysis classified the 65 unique merchandise categories as either Convenience or Experiential. Convenience retailers include service-focused tenants and include retailers of hardware and food. Experiential categories include apparel, food service, health & beauty among others.

According to the report, South Africa's weak economic fundamentals and consumer confidence, coupled with high levels of competition, has seen landlords re-examine their tenant mix in order for their malls to remain relevant to its catchment areas.



Ratanga returns in R57m Canal Walk upgrade

18 Apr 2019



"Anecdotally, managers of larger retail centres have been placing more emphasis on creating an experiential shopping experience to attract shoppers, lengthen dwell time and differentiate themselves from competing malls located within its catchment area. Meanwhile, managers of smaller retail centres have been focusing their efforts on positioning their centres as convenience destinations in a crowded, competitive market," the study notes.

"While it is crucial for centres to remain relevant, it is also important for tenant mix shifts to translate into improved trading and investment performance to ensure long-term sustainability," it adds.

Increasing weighting of experiential retail at larger malls

Data from more than 100 malls from MSCI Real Estate's Retail Performance Benchmarking Service, shows that malls larger than 25,000sqm have an increasing weighting of experiential retail categories.

The report reveals that since 2016, super-regional shopping centres (GLA of over 100,000sqm in size) have increased its share of experiential merchandise categories from 52% to above 56% (by the end of December 2018). Over the same time, the regional segment (between 50,000sqm - 100,000sqm) saw an increase from 49.5% to 52%; and, small regional centres (between 25,000sqm - 50,000sqm) from 46.4% to 49.5%.

"In a centre of 40,000sqm, an increase of 300bps translates into 1,200 additional square meters allocated to experiential retail - at the expense of department stores and convenience-focused retail merchandise categories. In contrast, the community shopping centre segment saw its allocation to experiential decline from 2016 going from 51.6% to 46.0% as at December 2018," the study notes.



#SeamlessSA: Physical retail needs to step up

Lauren Hartzenberg 18 Mar 2019



Growth in convenience-focused categories

However, the report shows adds that contrary to space allocation, convenience-focused categories in super regional and regional mall segments have outperformed experiential categories with regards to trading density growth.

"Categories classified as convenience grew its sales per square meter by 9.2% in the year to December 2018. However, the additional allocation to experiential space may have indirectly boosted convenience spend through the additional foot flow resulting from an improved experiential offering," MSCI explains.

"The small regional retail segment saw the most benefit from increasing experiential space, growing its trading density over the past 1, 3 and 5-year periods to December 2018. Increasingly, malls in this size bracket have been adding features such as ice rinks, family entertainment centres and new age theatre cinemas to complement their food service offerings," it adds.



The coming shopping centre ecosystem apocalypse

Alan Knott-Craig 11 Feb 2019



With regards to community centres (GLA of between 12,000-25,000sqm), the report shows that in contrast, experiential retail categories underperformed. This was particularly the case over the last 12 months, where negative trading density growth of -14% was recorded, which highlights the fact that consumers view these as convenience stops rather than an experiential destination.

Delivering benchmark-beating total returns

“Given the challenging and competitive operating environment, it is currently harder for retail centres to deliver benchmark-beating total returns – even more so for the larger retail formats,” the report says in its concluding summary.

While the study shows large-format centres have been allocating more space to experiential retail categories, it notes that “there isn’t yet evidence to suggest that an overweight allocation to experiential GLA translates into superior trading density growth or investment returns”.

“This highlights the fact that it (experiential) is one of many factors that directly and indirectly can affect property total return and its underlying components. In saying that, the data suggests that convenience-focused categories in larger format retail may have benefitted from the additional foot flow resulting from an improved experiential offering.”



Entries open for 2019 Footprint Marketing Awards

30 Apr 2019



Nevertheless, it did find that the annualised total return of centres with an above average allocation to experiential GLA (total return of 14.1%) was more than that of centres with a below average allocation (total return of 13.0%) for the five years to December 2017.

However, given the weak statistical relationship, the report deduces that a successful tenant mix strategy is one of many factors that could influence a mall’s long-term sustainability. “Time will tell whether this approach drives improved performance,” it concludes.

For more, visit: <https://www.bizcommunity.com>