Consumer spend up, but rental yields flat

Commercial property services group Broll has released its latest retail barometer for shopping centres larger than 20,000 square metres.

The barometer found that retail sales figures show growth of 9.92% year on year for the first quarter of 2011, though the rentals have remained flat.

Nominal retail sales continued to show strong growth for the first quarter of 2011, with 10.76% in January, 10.4% in February and slowing down to 8.6% in March, compared with the same period last year.

This has resulted in first-quarter growth of 9.92%, which is about 2.5% higher than the figures released by Statistics SA for the same period.

"This again confirms that larger shopping centres are more resilient in bad economic conditions and continue to perform well," says Sanett Uys, GM of research and marketing.

With interest rates at historical lows, consumption habits have greatly improved and are evident from sales figures emanating from sectors like motor vehicles, men's fashion, electronics, music and alcohol.

These sectors have posted strong growth performances and are likely to continue their upward trend. According to Oxford Economics, the latest domestic sales of new vehicles rose by 22.8% on the year in March after a 25.1% increase in February.

"Economists are in agreement that consumption remains the most important driver of the South African economy," Uys adds.

"The latest data indicates that consumption should continue to grow robustly in 2011. This has been confirmed by the fourth quarter of 2010's GDP expenditure data showing growth of 1.1%, while consumer spending rose by 1.2% for the same period. In addition, exports grew by a remarkable 2%. Investment was, however, disappointing, rising just 0.4%."

The rebound in retail sales only bodes well for the South African economy, given that consumer spending is a robust contributor to the GDP, she says.

While the retail sector brings in the good news, inflation is increasing, driven mainly by rising commodity prices and the weakening of the local currency.

As a result, the consumer price index (CPI) rose by 3.7% year on year in February. This is due mainly to increases in petrol and electricity prices, which rose 12.3% and 18.6%, respectively.

"The pressure is likely to continue as the petrol price increased in both March and April," says Preston Gaddy, executive head of retail property management.

However, there are a few merchandise categories that are struggling, having achieved negative sales growth for a substantial period. Capitalisation rates remain stable and rentals remain flat. Sectors like children's fashion, accessories and sweets have been performing poorly, he says.

According to Uys, urbanisation in SA is leading to increased trading densities in urban areas, hence street-front retail in certain nodes is performing very well.

"We have to note that Cape Town's street front is unique in SA, due to tourism and inner-city living similar to that in Europe."

Traditionally, street-front retail has been the prime retail destination in Europe and as a result produced very good yields. However, in certain areas these street-front shops are coming under more pressure from newly developed shopping centres.

"When comparing South African yields to Europe, the Middle East and Africa, we need to take into consideration that Europe is not experiencing urbanisation to the extent that sub-Saharan Africa and SA are," says Carl von During, head of investment broking.

Gross street-front rentals for prime space in the major CBDs remained stable in the first quarter of 2011, with Cape Town being the exception with a slight downward trend. Pretoria has been stable since the first quarter of 2010 and Bloemfontein experienced strong growth for the same period, albeit from a low base.

The gross rental for a prime-line shop of 80 square metres in shopping centres under Broll management near the anchor tenant have remained stable since the first quarter of 2010.

Some of the regions are starting to show a slight upward trend, but it is too soon to conclude if this is the beginning of an upward movement.

"In some regions, rental renewals are being negotiated with little or no escalation, again indicating that secondary centres are struggling in the current economy."

Property management companies and landlords are forced to scrutinise the business plans and finances of new tenants to ensure that they are able to trade successfully, in order to limit future vacancies and expensive legal battles if the tenant fails, Von During adds.

Leasing activity in Europe, the Middle East and Africa remains slow due to the fact that occupiers of space are finding it difficult to find prime space in the major cities in Europe.

"This is a result of lack of construction activity. Poland and Germany are two of the countries where retailers have expanded the search for suitable space. However, most of the markets in Europe, the Middle East and Africa have indicated the demand for secondary space is still very weak, and this trend is similar in SA."