SA's mall space over-traded

There's still money to be made in the highly competitive rural and township retail market if you own established, dominant malls. But it is becoming more difficult to turn a decent profit on new shopping centres, says Resilient Property Income Fund's managing director Des de Beer, one of SA's early pioneers of non-metropolitan retail developments.

The company's foray into townships and platteland areas like Nelspruit, Polokwane, Witbank, Burgersfort, Brits and Kathu over the past few years has delivered excellent returns on the back of the growth of the black middle-class and the rapid expansion of government's social grant system.

Investment Property Databank (IPD) last month ranked Resilient as SA's top-performing listed property fund over three years in terms of total returns on underlying assets.

But De Beer told analysts at last week's results presentation that he wouldn't be building any more shopping centres in SA. The 58,000m^2 Secunda Mall, scheduled to open in October, and the 34,000m^2 Soshanguve Crossing, set for an April next year, will probably be Resilient's last two regional mall developments in SA.

The company is now looking outside SA for growth. De Beer says developers of new shopping centres are vying so aggressively to sign-up national tenants that incentives like full store fit-outs and cancellation clauses are becoming the norm.

No risk for retailers

That means retailers can simply walk away from a new centre if they don't trade successfully, leaving all the risk to the developer. "We are not prepared to do that and will stay out of the market until things stabilise," De Beer says.

He says retailers are still keen to expand existing stores in malls with a good track record, but there's only so much retail spend available in the SA economy. "Cannibalisation is now a reality. The stronger centres are taking away spend from the weaker centres," he says.

Resilient last week reported average retail sales growth of 8.5% from January to June this year on a year-on-year basis across its 23 shopping centres.

The portfolio has a vacancy rate of less than 2%.

Some centres, like Mall of the North (Polokwane), Brits Mall and The Grove in Pretoria, achieved double-digit growth. This despite indirect exposure to the beleaguered platinum mining sector in the North West, which negatively affected sales growth at Resilient's Northam Plaza.

But the better than expected 12,83% growth in distributions for the six months to the end of June was largely driven by Resilient's offshore holdings in Romanian-focused New Europe Property Investments and Rockcastle Global Real Estate Co, through the weaker rand.

Offshore exposure

De Beer would like to increase Resilient's offshore exposure from the current 13.5% of total assets to 35%. Expansion into Africa, which offers dollar-based income, will be a growth area for the group over the next three to five years.

Resilient has already committed R600m to building five shopping centres of between 10,000m² and 15,000m² in Nigeria in a joint venture with Shoprite Checkers and Standard Bank.

The first Nigerian centre, Delta Mall, is already being built. But De Beer notes that African growth will not happen overnight. "It takes more than two years to build a mall in Nigeria compared with just nine months in Romania," he says.

Meanwhile, Resilient will continue to grow its SA assets through extension and redevelopment opportunities, as well as potential acquisitions of existing, distressed centres that offer turnaround potential. Extension projects worth R675m are in progress at seven of the group's shopping centres.

Resilient is trading at a forward yield of just below 6% versus the sector's 7.3%, so the stock is by no means cheap. Coronation Fund Managers property analyst Anton de Goede says despite a demanding yield, Resilient still offers fair value, given management's proven ability to consistently deliver above-sector distribution growth.

"Resilient is a dominant player in its market and [therefore] has a captive tenant and client base, which bodes well for continued positive income growth in its centres," De Goede says.

Source: Financial Mail via I-Net Bridge