

# Do township and rural retail centres work?

An investigation into the positive and negative impacts and the lessons that can be learned from this research.

The past few years have seen the development of sizeable shopping centres in some of South Africa's townships and rural areas. Many of these – Maponya Mall in Soweto being a good example – have A-grade finishes and the same tenant mixes as their counterparts in the formerly white middle class and upmarket suburbs. But what is the impact of such developments on these areas? Do they help boost the local economies or do they contribute to the failure of the local businesses that existed before their arrival?

Demacon Market Studies has completed a detailed study for Urban Landmark on the impact of shopping mall developments on what are termed second economy areas. The company undertakes a great deal of research work for listed funds and similar clients with a focus on the urban townships and rural areas. Hein du Toit, MD of Demacon, says he hopes that the study will help stimulate some robust debate in the market.

Demacon believes the market is extremely active at the moment because in South Africa's dualistic economy, it has been under-catered for for a long time. Hein points out that the second economy areas don't have developed retail markets, but they are also under-regulated. It is well known that developers and retailers are hesitant to enter these markets as they come with different sets of challenges. Many developers don't believe that the hierarchies set out by the SA

Council of Shopping Centres can be applied to a township or rural shopping centre, and ensuring the success of a centre is far more challenging.

The research, which focused on the nature and impact of shopping centres in South Africa's second economy markets, highlighted some important points about the changing nature of these markets themselves. Investment flows into the townships by public and private sectors has resulted in the improvement of these areas, especially between 2005 and 2009. The increased flow of money into and within the townships reduces the overall level of poverty as more people are able to participate in a functioning market system. The report points out that township economies tend to grow via the creation of new enterprises, by attracting investment from outside and by growing existing businesses. Making these markets work for the poor via public and private sector co-operation is crucial here.

The question of whether the development of shopping centres is beneficial or detrimental to second economy markets is complex. There are pros and cons on both sides (eg some local businesses benefit from the presence of a mall nearby, while others lose business), and each situation is unique. The diagram below sets out the tensions between local businesses and new retail developments:



Source: Demacon

There appears to be generally good support for township shopping centres by the local residents. The research states that according to several studies, township residents spend most of their income on retail and services outside the townships. It states: "Malls appear to satisfy the aspirations of residents for a choice of high quality goods and an exciting shopping experience. Such developments may contribute to retaining existing, or attracting new, middle-income residents to townships."

Hein points out: "People often have long commutes via public transport to do their shopping, so they generally welcome the development of a shopping centre in their area." It is important, however, to note that a balance between shopping centres, local businesses and informal providers does need to be achieved in order to protect small businesses playing pivotal roles in these economies.

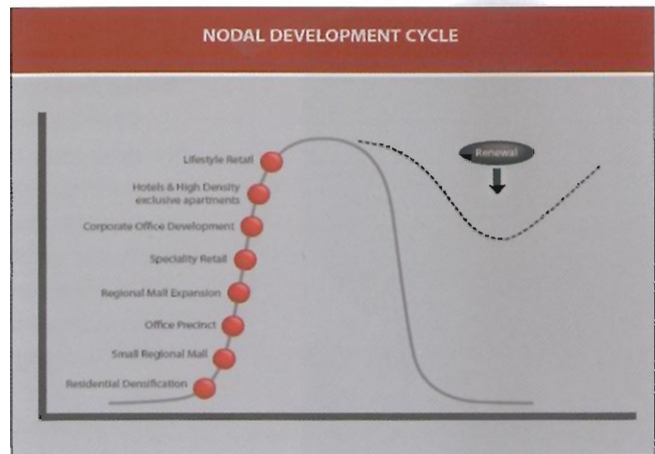
There is also some debate about the change in the incomes of people living in townships. Some say that the amount of money in circulation in the township economies increases as salaries increase, while others contend that people in fact move out of the townships to more sophisticated areas as their incomes allow it. There is also the impact of government subsidies such as child and old age grants. "These can elevate the disposable income of a person by up to 30% in some cases," comments Hein. There is no doubt that there is a growing middle class in South Africa, and also that as the development of the metropolitan areas continues, so will township development.

Looking at the role of retail centres in the development of urban nodes, it is clear that they have a role to play. As shown in the following diagram, retail centres are usually the first non-residential type of development to occur in a developing node, and thus play an important role in the growth of an area. Mixed use nodes also have an important role in second economy landscapes as they concentrate services, opportunities and investment platforms together. However, it does take time for a quality mixed use environment to take shape as a critical mass of customers is required. It is clear, though, that retail centres represent critical building blocks in the development of second economy nodes.

The research shows that the national consumer market has certainly changed over the past decade or so. The emerging black middle class is growing, and there has been a general upward movement along the national LSM profile which reflects higher levels of retail demand within previously disadvantaged and underdeveloped areas. This positive trend, supported by the impact of social grants, has resulted in increased financial stability in these consumer environments.

Clearly, there is an improved level of demand for retail centres in second economy areas. Banks and retailers may be somewhat more conservative in their approach to entering these markets, but there are definite opportunities for developers. Some have gone in on a trial and error basis, and the various successes and failures speak for themselves, especially with the tightening of the market under recessionary pressures. But the process has resulted in the development risk models being adjusted as all players involved realise that it is not possible to apply the 'standard' development models.

One of the challenges for developers is that they need to strike an appropriate balance between the inclusion of national tenants and local traders in such a development. Who to include and how to cater for their different requirements are questions that must be tackled early on in the process and which require an in-depth understanding of the specifics of each locality and community. Questions of tribal land and trust land also have an impact on the way an entire development is planned and financed. Certain factors clearly make a difference



Source: Demacon

between success and failure. Hein cites an example: developers who voluntarily include a taxi rank in their schemes (and many are building them at their own cost) tend to find their developments do better. Of course, this itself requires research and an understanding of the taxi routes and the territories of the various associations.

To date, 160 retail centres have been developed in second economy areas, amounting to some two million square metres of floor space. While development dates could only be obtained for 117 of these (approximately 1.6 million square metres), it is clear that the majority of the developments (69.4%) and the largest bulk (75.5% of the total retail floor area) was developed after 1994.

Demacon carried out six detailed case studies to assess the impact of formal retail centres on the local consumer markets and economies in second economy areas. Five of these were in areas with a formal retail centre, and the sixth example was of an area with no formal retail centre. The centres studied were Jabulani Mall in Soweto, Gauteng; Central City Shopping Centre in Mabopane, Gauteng; Liberty Promenade in Mitchell's Plain, Cape Town; Umlazi Mega City in Umlazi, eThekweni; Thula Plaza in Bushbuck Ridge, Mpumalanga; Nkowa Nkowa in Tzaneen, Limpopo (which has no formal retail centre).

The case studies showed that current consumer behaviour tends towards a strong reliance on the retail centre of the closest town in each case. Local trader support was reflected as low, although the majority of consumers said they conducted most of their shopping locally. The cost and time involved in travelling reduces the frequency of visits to formal retail centres. In the area without a retail centre consumers relied strongly on the retail centre at the next closest town and indicated that there would be strong support for a centre in Nkowa Nkowa. In general, the research showed a definite perceived demand for formal retail centres with the emphasis on goods and services. The conclusion reached was that such a retail centre would have a positive impact on the local market in each case.

In assessing the impact that a formal retail centre has on the local business environment, two centres were compared: Jabulani Mall in Soweto and Central City in Mabopane. Local business surveys were conducted with informal traders, spaza shops and local businesses within a 5km radius of each centre. Plenty of the factors that make local businesses difficult to run are present with or without a mall, for example, high levels of competition, lack of customers, stock prices, price competitiveness, accessibility, visibility, lack of funding, economic recession, lack of unique business opportunities, and the informal nature of the businesses. In general, such businesses need better

support in a variety of ways. There was no clear-cut answer on whether the presence of a shopping centre nearby was positive or negative, although it was found that local traders who are furthest away from a mall suffer the most.

While the second economy areas definitely have a certain risk profile, developers have taken the lessons they have learned and refined their concepts so as to come up with increasingly successful development models. Some investors and developers were interviewed, and had useful insights to share. A detailed list can be found in Demacon's executive report, but a few key points were as follows:

- 14 000m<sup>2</sup> seems to be the minimum workable size for a second economy shopping centre, and most investors and developers regard 25 000m<sup>2</sup> or larger as ideal.
- Land ownership and control, and land use rights such as business zoning, are of critical importance.
- BEE representation is difficult to quantify, but tends to be higher where the BEE partner makes a financial contribution to the project.
- The cost of land in second economy areas tends to make up a small proportion of the project cost, but servicing the land and obtaining the correct land use rights raises the cost substantially.
- Top structure costs differ, depending on the type of development.
- Most second economy consumers insist on the same national tenants found in any first economy shopping centre, and the inclusion of local traders in such a setting is often unsuccessful.
- Mitigation of risk is paramount, and risk mitigation strategies typically include the placing of a high percentage of national tenants, development along a major taxi route and the incorporation of a taxi rank, and the inclusion of national banks as tenants.

The recommendations in the report emphasised the critical role of retail centres as building blocks in developing nodes in second economy areas, although it requires sufficient time and the correct location for such nodes to develop into working mixed use environments. The critical inputs required are land, capital, human resources, statutory approvals and authorisation, and a good understanding of the market potential and critical demand thresholds.

Studies such as this one will no doubt help to shed light on many of the difficulties that developers and investors face in catering for the second economy consumer. While there are definite examples of centres which are not best practice, experience and market studies can help bring the problems to light and help developers refine their models. Hein believes that given the point South Africa is at in its national growth cycle, we can very likely expect another 20 to 30 years of development in the metropolitan and developed areas before growth starts to taper off. And given the potential in the second economy markets, this no doubt translates into continued retail centre development in these markets.

In the light of this, market studies and shared experiences will hopefully stimulate further debate and creative thought which will help developers and investors to refine their approaches to servicing a clear consumer demand in the townships and rural areas.

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