Malls still coining it

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Norbert Sasse

Despite the humdrum economy, a number of listed property companies released better-than-expected results in recent weeks. The weighted average growth in income payouts declared by the 11 companies with December reporting periods clocked in at an inflation-beating 7,4% (Stanlib figures).

But the gap in the distribution growth performance among the different counters was more than 20%, which suggests that it's now less about property fundamentals and more about management teams adding value through acquisitions, redevelopments and disposals.

Office-focused Vunani Property Investment Fund, one of the R215bn real estate sector's smaller and newer listings, led the pack with a substantial 24,4% growth for the six months to December. Vunani's outperformance is particularly impressive, given still weak demand for office space overall.

Jay Padayatchi, director at Meago Asset Management, says SA's office sector, particularly B-grade buildings in secondary areas, remains under pressure with average vacancies for the sector still above 10%.

"It appears very difficult to let office space, with tenants generally demanding significant installations and brokers receiving above-market incentives to source tenants.''

Emira Property Fund, which has a sizeable portfolio of older office buildings, is a point in case. The fund reported distribution growth of only 3,5% for the six months to December.

That was nevertheless a welcome turnaround from the drop of 2,5% in income payouts reported by Emira for the previous reporting period (12 months to June), suggesting that management is making significant headway in reducing vacancies and offloading underperforming buildings.

Though there's still healthy demand for high-quality industrial property, particularly "big box" warehousing and logistics space, the retail sector remains the most profitable place for listed property players to be.

That's especially true for large malls in prime urban shopping areas and centres that cater to lower-income shoppers in rural and non-metro areas. Smaller, secondary centres in less-than-prime locations continue to lose shoppers and tenants.

Says Padayatchi: "Shopping centres that dominate their catchment areas continue to report declining vacancy rates, positive reversions on lease renewals, improved trading densities and higher footfalls.''

For sector heavyweight Growthpoint Properties, gross revenue from its R13,5bn retail portfolio, including centres like Brooklyn Mall in Pretoria, Lakeside Mall in Benoni and La Lucia Mall in Durban, has grown by 10,9% for the six months to December year- on-year. That compares to growth of 5,3% and 7,8% for its office and industrial buildings.

Growthpoint CEO Norbert Sasse says Cape Town's V&A Waterfront, which the fund co-owns with the Public Investment Corp, is its top performing retail property. Retail sales at the V&A surged by 18,4% for the 12 months to December compared to sales turnover growth of 6%-7% on average for SA's retail market as a whole.

Sasse notes ongoing demand for space from national and international retailers is driving further expansion at the V&A.

Construction on a new wing, which will be anchored by Edgars, will start in the second quarter. In addition, Pick n Pay will relocate from its current 2600m² store to new 6000m² premises by year-end. UK fashion brand Top Shop will open a store at the V&A in late April.

Retail-focused Hyprop Investments is reporting similar strong demand for space in its 11 shopping centres. Hyprop MD Pieter Prinsloo says flagship malls like Canal Walk at Cape Town's Century City, The Glen in the south of Johannesburg and Clearwater Mall on the West Rand have virtually no vacant space. Trading densities (turnover/m²) at the latter were up an impressive 14% last year.

Prinsloo notes most national retailers are keen to expand their current foot prints in well-established malls with a track record. International fashion brands looking to follow the likes of Zara, Cotton On and Top Shop into SA are also increasingly knocking on Hyprop's doors.

"Just about every week we are talking to global brands that are keen to establish a presence in SA. The continued influx of international tenants will no doubt start having a positive knock-on effect on rental growth over the next year or two."