Listed property and retail investments

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Savvy investors know that adding listed property helps to reduce portfolio volatility and provides better risk adjusted returns, says Keillen Ndlovu, head of listed property funds at STANLIB.

From a market capitalisation of R25 billion in January 2004, the South African listed property market capitalisation has grown 10 times over the last 10 years to R250 billion by January 2014. Picture courtesy of STANLIB research.

What's more, listed property provides stable, growing and fairly predictable income.

"From a market capitalisation of R25 billion in January 2004, the South African listed property sector market capitalisation has grown 10 times over the last 10 years to R250 billion by January 2014," he says.

At a recent Gauteng Chapter of the South African Council of Shopping Centres in Johannesburg, Ndlovu told delegates they still expect positive returns from listed property and average distribution (income/earnings) growth of 6.9 percent over the next four years.

"Our returns will be good but we are more in a normalised environment and therefore it will not be prudent to expect returns that we achieved over the last 10 to 12 years (i.e. 24 percent annualised returns)."

He notes that listed property has a low correlation to equities and is less volatile than equities.

Though listed property has a high correlation to bonds, listed property provides growing income whereas bonds (and cash) do not – it helps to improve diversification in a portfolio.

Ndlovu explains that the listed property sector exposure is 53 percent retail, offices (28 percent), industrial (15 percent), hotels (2 percent), residential (1 percent) and other (1 percent).

Ndlovu notes a number of listed property companies on the Johannesburg Stock Exchange with offshore exposure include Redefine International, Rockcastle, Intu Properties, Capital & Counties, Investec Australia Property Fund, Fortress Income Fund, Resilient Property Income

Fund, Growthpoint Properties Limited, Redefine Properties, Capital Property, Emira Property Fund, Sycom Property Fund, Acucap Properties Limited and Hyprop Investments Limited.

In Africa, listed property funds with exposure include Resilient, Vukile, Rockcastle, Hyprop andAttacq Limited.

For investors looking to buy into the sector, prospects are looking good and equity raisings help to grow the size of the sector, with R1 billion of capital raising having been done so far bringing the total to R46 billion from 2011, points out Ndlovu.

Keillen Ndlovu, head of listed property funds at STANLIB, says local retailers expand because they are taking a long-term view as well as the fact that they are defending their position given the emergence of new retailers and expansion of local retailers.

Focus on consumer spending and retail

Although retailers report good results especially from last year, the reality is that South Africans are spenders and not savers, whatever we earn, we quickly spend and the cycle keeps repeating itself.

According to Ndlovu, that is why there is a perfect correlation between consumer spending and disposable income, pointing out that it will be a mistake to use the strong growth in consumer income, more so between 2010 and 2012, as a proxy for the retail sector outlook.

“We believe that consumer income growth of 2 percent (real growth i.e. adjusted for inflation) is a more sustainable number (not the 4 to 6 percent real growth that we experienced between 2010 and 2012).”

He says we will move more to a normalised environment because we are unlikely to see a super commodities cycle soon nor the same pace of unsecured lending. "We have seen most of the benefit from social grants and don’t think the government is likely to increase salaries at the same rate as the last few years or meaningfully reduce income tax."

The only thing that can make a material positive change is employment growth, he notes.

According to the International Council of Shopping Centres in 2012 South African retail space amounted to 20 678 287 square metres of GLA

Furthermore, he notes that retail fundamentals are holding up noting that the RMB Morgan Stanley 2014 research shows that by January 2013, 7 percent of shopping centre plans valued at R8 billion were passed compared to just under a percent and R1 billion in January 1985.

Shopping centre plans completed were valued at R3 billion and recorded 3 percent in January 2013 while retail vacancies are just over 5 percent and valued at just over R5 billion, according to the research.

Ndlovu notes retail developments and redevelopment such as Jabulani Mall in Soweto,Cradlestone Mall in Krugersdorp, Rivonia Village north of Johannesburg saw the extension completion of Checkers and the redevelopment of Rosebank Mall by Hyprop with completion scheduled for September this year.

Some of the malls coming up in the next few years include among others, the Mall of Africa andWaterfall Corner at Waterfall City in Midrand, Forest Hill City in Monavoni Pretoria West, a Billion Group development scheduled for opening next month and Newtown Junction in Johannesburg CBD, a regeneration development and joint venture between The City of Johannesburg and Atterbury to open in September this year.

Locals and online retail

According to the October 2013 Macquarie Research, some South African retailers are growing space at a faster pace.

STANLIB research shows an increased international retailer interest into South African malls, noting Burger King a recent entrant to the fast food market. Picture courtesy of STANLIB.

Ndlovu says local retailers expand because they are taking a long-term view as well as the fact that they are defending their position given the emergence of new retailers and expansion of local retailers.

“It seems like it’s a battle for market share and no retailer wants to be left behind – a good thing for the South African consumer as they now have more choice.”

More shopping centres reduces travelling for many and this means for anyone to stay in the game they have to improve their product offering or service or feel of the store - perhaps it's no wonder most retailers have been upgrading their stores, he notes.

However, he says what’s now tricky is that retailers are cannibalising their own stores in most areas and this may have a negative impact on their trading densities per store, which may ultimately affect the margins that they make.

Be that as it may, South African consumers still prefer a personal touch when it comes to shopping, instead of sitting with their smart mobile gadgets, they still walk into a mall and browse through various retail offerings with a few making use of online shopping.

Data from Urban Studies and iResearch Consulting Group 2013 report shows that South Africa’s online retail, as a percentage of total retail sales, was a mere 0.8 percent compared to the UK’s 14.3 percent, 10.0 percent for Germany, 9.0 percent for France, 8.0 percent for the USA, 6.2 percent for China, 5.6 percent Australia, 4.1 percent Spain and Italy’s 1.6 percent.

Ndlovu says SA’s figures are not really surprising given that our postal services and logistics are not as advanced, efficient or reliable as they are in the developed world.

At a recent Gauteng Chapter of the South African Council of Shopping Centres in Johannesburg, Ndlovu told delegates they still expect positive returns from listed property and average distribution (income/earnings) growth of 6.9 percent over the next four years.

“We still have to develop a habit of shopping online, which includes, not being able to touch and feel the products and having the courage to share our personal information and banking details.”

With changes in retail trends and business, tenant mix in shopping centres will change over time, partly as many consumers take to online shopping, some retail products may not need an actual store to display its products when a virtual one can do.

According to Bain & Company 2012, online sales forecast as a percentage of total sales for 2014 for music and video will reach 80 percent (90 percent in 2020), books approximately 45 percent (75 percent by 2020), electrical approximately 45 percent (just under 60 percent in 2020), travel will reach just under 40 percent this year (50 percent in 2020), clothing/footwear will edge towards 20 percent (30 percent in 2020), homewares will be just over 10 percent (near 30 percent in 2020) and food/groceries will reach just under 10 percent in 2014 and will be 10 percent by of total sales by 2020.

International retailer Cotton On is starting to earn anchor status. Picture courtesy of STANLIB.

As an example, he says Westfield Stratford, London in the UK offers free WiFi and free charging services to its shoppers as a way of enhancing shopper experience and of course, tapping into social and digital media trends.

In South Africa, the New Look Bedford shopping centre offers generous free parking, and in the article Inside South Africa's shopping malls, Hyprop for example launched a high-speed WiFi at its shopping centres in partnership with MWEB in December 2013, with Canal Walk being the first to see this roll-out - again, this is an initiative to encourage shoppers to chat on social media platforms while they shop, eat and catch-up at malls.

Another example, Vukile Property Fund spared no cent when they reopened Randburg Square in October last year, offering free WiFi but also, unveiled a chic design which saw the mall being nominated as a finalist in the renovation and expansion of an existing shopping centre category at the 2013 South African Council of Shopping Centres Retail Design and Development Awards.

International retail brands

STANLIB research shows an increased international retailer interest into South African malls, noting brands such as Cotton On which is starting to earn anchor status, Gap, Lush, Charles & Keith, Trenery, Kingsley Heath, Scotch & Soda which opened a store in Sandton City, Forever 21set to open mid-year at Canal Walk in Cape Town, Burger King a recent entrant to the fast food market and Hard Rock Cafe among others.

It's not just in SA where retailers are increasing space uptake. According to CB Richard Ellis 2013 report, in 2012, Hong Kong was ranked the number one city with a total of 51 new retailers to that market, followed by Kiev (39), Berlin (28) while London was number nine with 23 new retailers and New York came in at number 10 with 20 new retailers. – **Denise Mhlanga**