MIXED USE – FAST TRAC

From a broader town planning and urban development perspective, shopping centres in township areas play a critical role in the emergence of economic nodes in these previously disenfranchised areas. They are often the starting points for wider economic development in townships.

Shopping centres must be developed at the right location, and with enough space to develop over time into mixed use nodes. Municipalities, therefore, need to make provision for retail and transport nodes in township planning layouts, in order to secure enough land for them in the long term.

"Based on our research, several studies showed that township residents spend most of their disposable income outside the townships, due to a lack of retail shopping centres in these areas. This trend is now changing as national chains recognise the market potential in low-income areas. Increasing the flow of money into and within townships reduces the overall levels of poverty," says Mark Napier, Programme Director of Urban LandMark.

If the government enables the necessary supporting structures, the increased flow of income will stimulate markets such as the residential and commercial property markets and promote overall economic development in township areas.

A retail centre is often the first non-residential property type to be included as part of a node – this is why it is such an important type of investment within an area that needs to develop economically.

For consumers, shopping centre developments provide a vital retail service, not otherwise available. Local businesses offer important goods and services, but not everything required by the consumer. For example, the municipality can help to encourage retail centres to locate in a particular township area by including zoning for retail in these areas and supplying the necessary bulk infrastructure.

A retail centre is often the first non-residential property type to be included as part of a node that has been earmarked for development

The danger of formal shopping centres in township areas is that local small businesses may be squeezed out. This impacts negatively on the owners of those businesses and also undermines the range of retail services available to township consumers. Overall, this weakens the local economy. It is important that shopping centres are developed in township areas using an approach which supports, rather than neglects or undermines the needs of small local businesses.

Municipalities can support and empower local businesses by accommodating small, medium and micro enterprises near formal retail centres and providing alternative business models. These initiatives are directly within local government control.

Obtaining tribal land may be particularly difficult for a number of

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reasons, including multiple owners, lack of agreement and difficulty with the valuation of the land. Furthermore, there are no title deeds for tribal land, which make it difficult to obtain loans for the purchase of the land. For example, local communities may want to ensure that communities share the land development value equally.

Rural and township land is affordable and is often a small percentage of the total project cost. However, servicing the land, upgrading the existing services and obtaining the correct land use rights and required Environmental Impact Assessment, increase the overall cost substantially from between 5% to 10%.

The cost of unserviced land varies from R12,50m² to R36m² depending on the location of the land.

Bulk township land values go from R550m² to R1 200m² depending on the location and whether or not it has been zoned.

The top structure costs for rural and township areas differ. Generally, rural centres are open plaza style, with top structure costs of about R5 000m² to R10 000m². Urban township centres are generally enclosed malls to with top structure costs ranging from R7 000 m² to R13 000 m².

Projects are generally financed through bank loans. However, only a few developers or investors can obtain 100% loans; the average ranges from 60% to 70% Loan to Value.

In terms of current trends, the mix of tenants should generally be a ratio of 70% national to 30% regional and local tenants. Most township consumers insist on national tenants,

Facts and Figures:

- Between 1962 and 2009, 160 retail shopping centres and precincts have been developed nationally in rural and township areas
- These centres cover roughly two million m² of retail floor space
- 65% were developed after 1994
- Centres have increased from 6 500m² to 20 000m² Gross Lettable Area
- Between 1962 and 2009, township shopping centres have contributed:
  R34,2 billion worth of business sales
  R2,5 billion worth of business tax
  R166 million worth of rates and taxes
  Established 54 300 jobs since the 1980s
- These contributions do not include their impact on informal businesses

who are typically found in urban shopping precincts.

Township markets attract an increasing share of new developments, but they present a comparatively higher risk profile. This makes risk mitigation strategies important for the developer or investor.

Key risk mitigation includes: up to 95% of national tenants; ensuring the development is on a major taxi route or transport node; and attracting the

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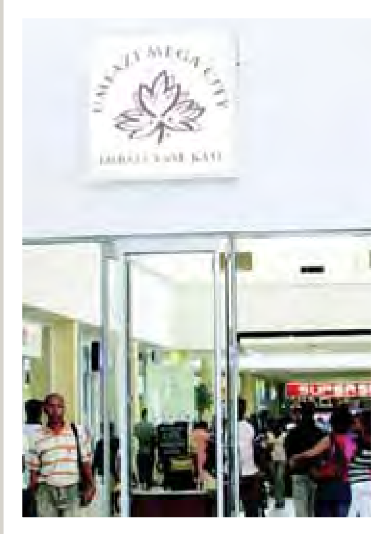

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big four banks, the latter has proved a challenge; this is followed by the positioning of tenants within the centre.

Developers usually secure a food anchor as a main tenant. Food anchors and food courts typically require 20 000m² and additional space for expansion. For example: Shoprite requires between 3 000m² to 4 000m² retail space and 1 000m² storage and expansion space.

Shoprite and Spar supermarket chains dominate in retail centres in township areas, followed by Score and then Pick n Pay. Rural centres are generally anchored by Shoprite. Spar is viewed as a convenience store.

Preferred township tenants are usually the same as urban shopping centres. However, fashion outlets in rural centres are generally represented by the bottom-priced national companies, such as Pep, Jet and Ackermans.

It is important to mention that women represent the key shoppers in urban malls. Men are typically the main consumers in rural areas, and stores such as Truworths Man and Markhams will outperform Foschini and Milady.

In terms of furniture stores, JD, Lewis and Ellerines are the preferred tenants. The most popular fast foods and restaurants include KFC, Chicken Licken, King Pie and Brazen Head.

Other key tenants include Cashbuild, Build It and Tops Liquor. Generally entertainment businesses under-perform in township centres.

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In the majority of centres, national tenants generate 95%+ of the income, and the income drops proportionately as the national tenant mix drops.

The shopping centre developer or investor needs to attract the major banks, as township areas have a 'cash culture' and consumers require banking facilities near to their preferred retailers. This ensures that banks are often offered extremely low rentals and the required high installation costs are shouldered by the investor or developer.

Banks are not keen to move into smaller centres but with increasing government pressure on them to provide local communities with services, this is changing.

Rural centres generally have more low-end retailers such as Pep, while township malls more high-end retailers such as Markhams.

Average rentals differ between open and enclosed malls. Open centres range from R80m² to R90m² as against R100m² to R120m² for enclosed centres.

National tenants pay between R55m² and R70m², whereas smaller shops pay rentals of R200m² and R400m². Most national retailers often take space to keep their competitors out of the area. Some leases will allow national tenants to walk away from underperforming centres without any further financial responsibility.

Grocery anchors pay between R55m² and R70m²; clothing tenants R85m² to R140m²; furniture stores R75m² to R80m² and entertainment and restaurants start from R100m².

Napier says, "We conceived the 'Managing Urban Land – A Guide for Municipal Practitioners' to bring together a rich body of work commissioned by Urban LandMark over the past four years. It was developed by the Isandla Institute and funded by UKaid, the British Department for International Development." ■