

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

DEMACON Market Studies was appointed by **Urban Landmark** to undertake quantified research on the nature and impact of shopping centre developments in South Africa's second economy' markets (i.e. township areas).

Chapter One provides an introduction and concise roadmap of the *Impact of Township Shopping Centres Market Research Study*. The chapter provides an overview of the problem statement, significance of the study, project methodology and report outline.

1.2 PROBLEM STATEMENT

The last decade has seen a significant increase in the number of retail centres being developed in second economy areas (townships and rural areas).

This trend has been met with mixed reactions:

1. Some argue that these centres have a negative impact on the local economies by out-competing the local enterprises.
2. Some argue that these centres bring a wider range of goods and services closer to the local population at a reduced price, reducing the need to travel and the associated costs.
3. Some argue that these centres can play an important catalytic role in generating urban agglomerations, thereby initiating urban renewal and the development of vibrant town centres.

Research is required to test these assertions and to explore ways in which the positive impact of these centres can be maximised and the negative impacts minimised.

1.3 OBJECTIVES OF THE STUDY

The overall goal of this study is to provide a quantified, comprehensive, insightful and in-depth analysis of the complex dynamics and intricate realities that influence the development and functioning of second economy shopping centres – from both the demand and supply side. The process is centred on quantitative research and qualitative knowledge sharing of industry best and worst practices, critical success factors and fatal flaws.

The objectives for reaching this goal are the following:

- ✓ To obtain a basic understanding of the functioning of township economies and land markets;
- ✓ To identify second economy development drivers and underlying trends;
- ✓ To develop a dynamic market perspective and trend analysis of shopping centre developments in South Africa's second economy markets over the past 10 to 15 years;
- ✓ To develop an understanding of shopping centre hierarchies in general, the emergence and evolution of commercial nodes in township economies and the natural progression of such nodes along known (well-researched) neighbourhood and nodal development cycles;
- ✓ To determine the impact of second economy centres on the local consumer market;
- ✓ To determine the impact of second economy retail centres on local enterprises and traders;

- ✓ To identify critical success factors and fatal flaws; with reference to centre design and tenancing considerations, parking ratio challenges, critical mass requirements, location and transport considerations and prerequisites;
- ✓ To identify the challenges and opportunities facing the industry via a SWOT analysis;
- ✓ To identify clear and concrete intervention options & recommendations such as negative impact mitigation strategies, positive impact optimisation strategies, and recommendations for addressing identified blockages in the system and facilitating access to the broadest possible spectrum of well diversified consumer goods and services, whilst creating an increasingly efficient economic system.

1.4 SIGNIFICANCE OF THE STUDY

The significance of the study is threefold:

- ✓ It will contribute to the development of a comprehensive understanding of retail centre development in second economy areas.
- ✓ It will contribute to an understanding of the positive and negative impacts that retail centre development has on local economies.
- ✓ It will assist in the development of effective leverage mechanisms to improve the evolving role and function of commercial markets in second economy areas and to minimise the negative impacts thereof.

1.5 PROJECT METHODOLOGY

Diagram 1.1 illustrates the project methodology applied in the market study. As mentioned earlier the project methodology is based on a combination of quantitative and qualitative research.

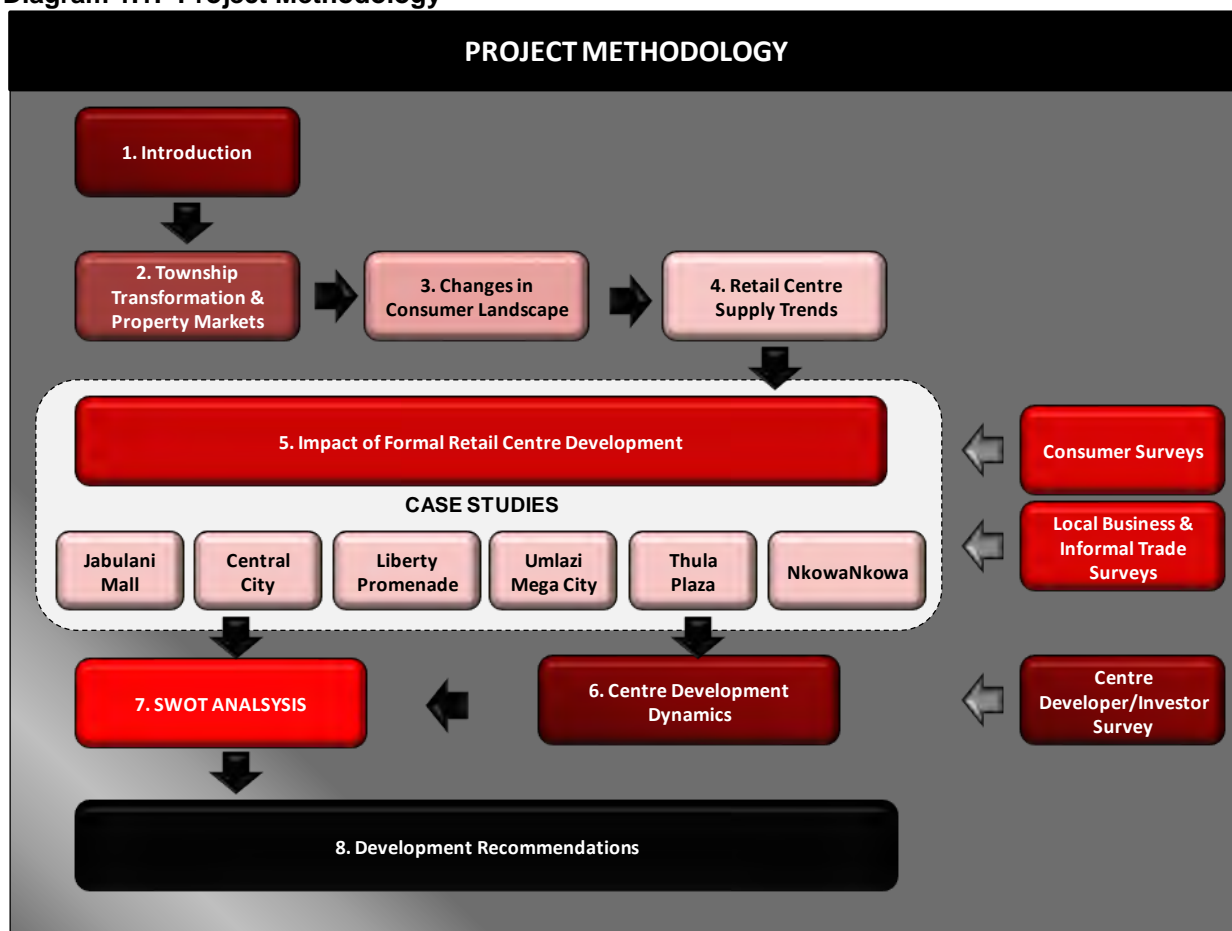
Step 1: Introduction – This step merely included an inception meeting, in which the project brief and study objectives were clarified, case studies were selected and the general timeframe was discussed.

Step 2: Township Transformation and Property Markets – A general overview and understanding was developed in terms of the township transformation timeline, the presence of property markets in these areas, the impact thereof on economic development and the general workings of these markets and interventions required in order to unlock market potential. This was based on secondary data sources.

Step 3: Changes in Consumer Landscape – The consumer landscape in second economy areas has undergone significant changes over the past few years, with a significant impact being made by the rising black middle class. This positive trajectory of income growth in association with the impact of the social grant system has positive impacts on the overall living standards in these areas. This chapter sheds some light on these trends and the impact thereof on retail expenditure. This was based on secondary data sources.

Step 4: Retail Centre Supply Trends – Retail centre development in these second economy areas was reflected in terms of a timeline nationally, as well as on a provincial basis – looking at development dates, average size and number of shops and retail centre classification. This was based on secondary data sources.

Diagram 1.1: Project Methodology



Source: Demacon, 2010

Step 5: Impact of Formal Retail Centres – The development of formal retail centres had an impact on the consumer market and local business environment of these localities. The impacts on these two market segments were assessed by means of quantitative data collection methods.

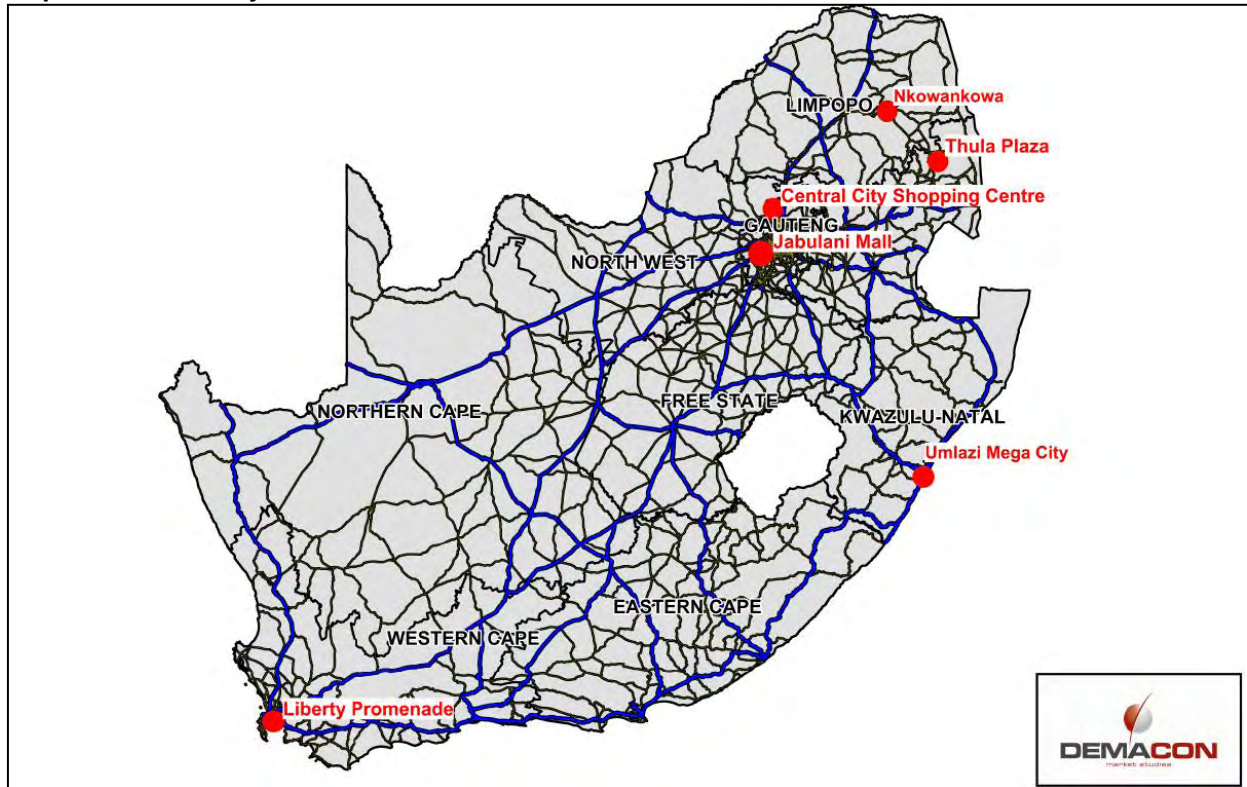
Impact was assessed by means of the selection of six case studies – five areas with retail centres and one area without a retail centre – Refer to Map 1.1. The case studies included the following areas: Jabulani Mall in Soweto, Central City in Mabopane, Liberty Promenade in Mitchell’s Plain, Umlazi Mega City in Umlazi, Thula Plaza in Thulamahashe and NkowaNkowa in Limpopo Province. This provided an effective distribution between provinces and various types of secondary economy areas – urban to extremely rural. Consumer household surveys (in all areas) and local business surveys (Jabulani Mall, Central City, Thula Plaza) were conducted to assess the impact of centre development, or the absence thereof, on the local economies.

Step 6: Centre Development Dynamics - Critical success factors and fatal flaws; with reference to centre design and tenanting considerations, parking ratio challenges, critical mass requirements, location and transport considerations and prerequisites are addressed in this chapter by means of conducting interviews with shopping centre developers and investors.

Step 7: SWOT analysis – The strengths, weaknesses, opportunities and threats of retail centre development in the second economy areas are assessed firstly, in terms of the impact on local communities and secondly in terms of a retail industry developer/investor perspective.

Step 8: Development Recommendations – The findings of the previous steps are integrated into a set of clear and concrete interventions, options and recommendations aimed at optimising the positive impacts and mitigating the negative impacts and blockages associated with retail centre development in second economy areas.

Map 1.1: Case Study Location



Source: Demacon, 2010

1.6 SURVEY METHODOLOGY

A combination of qualitative and quantitative research methods was utilised to obtain primary data.

Quantitative Data

Two different types of surveys were performed as part of the market research: consumer market surveys and local business surveys. These surveys were used to assess the impact of the absence or presence of formal retail centres on the local economies and business environments.

✓ **Consumer Market Surveys:**

- Six sets of consumer market surveys were conducted in each of the case study areas.
- Five sets were conducted in areas with formal retail centres, and one set in an area not characterised by formal retail centres.
- Surveys were randomly conducted within a delineated 10km radius.
- 700 surveys were conducted as part of the market research – the majority of these surveys represented productive questionnaires that could effectively be analysed:
 - Central City – 100 completed surveys analysed;
 - Jabulani Mall – 109 completed surveys analysed;
 - Liberty Promenade – 100 completed surveys analysed;
 - Umlazi Mega City – 107 completed surveys analysed;
 - Thula Plaza – 52 completed surveys analysed;
 - NkowanKowa – 78 completed surveys analysed.

- Each of these sets of surveys addressed a number of aspects:
 - Case studies with formal retail centre:
 - These surveys entailed a sifting process – respondents had to live in the relevant areas before the specific centre under investigation had been developed before the survey proceeded. This was necessary to give a more accurate indication of the impact that the centre had on the local consumer market.
 - The survey covered the following dominant aspects:
 - Household information;
 - Past consumer behaviour before the centre was developed;
 - Current consumer behaviour - after the centre was developed;
 - Level of satisfaction with the centre;
 - Perceived need to expand the centre;
 - Overall impact of the centre;
 - Changes to living standards and income.
 - Case study without a formal retail centre:
 - The survey covered the following dominant aspects:
 - Household information;
 - Consumer behaviour;
 - Perceived need for formal retail centre;
 - Anticipated impact;
 - Changes to living standards and income.
- ✓ **Local Business Surveys:**
 - Randomly selected local business surveys were conducted within three of the case study areas in order to identify the level of business sophistication and to assess the impact that the formal retail development had on the local business environment.
 - 360 surveys were conducted within these areas, the majority of which represented productive questionnaires that could effectively be analysed:
 - Central City – 99 completed surveys were analysed;
 - Jabulani Mall – 99 completed surveys were analysed;
 - Thula Plaza – 81 completed surveys were analysed.
 - Local businesses and informal traders in proximity to specific formal retail centres were interviewed.
 - The survey covered the following dominant aspects:
 - Type of business;
 - Racial, gender and age profile of owner;
 - Highest level of education;
 - Indication of business training and skills;
 - Previous work experience;
 - Industry involved in;
 - Age of business;
 - Motivation for starting the business;
 - Number of employees;
 - Access to facilities, equipment and services;
 - Ownership;
 - Business planning;
 - Utilisation of bank products;
 - Average monthly business turnover;
 - Awareness of business support measures;
 - Impact of formal retail centre on business location;
 - Impact of formal retail centre on business performance;
 - Business problems and required support.

These data sets were captured into excel spread sheets where the data were cleaned and analysed – with the findings reflected in figures and table formats as indicated in the document.

Qualitative Data

- ✓ In terms of qualitative data – physical face to face interviews were held with developers and investors involved in retail centre development in these second economy areas – i.e. rural areas and townships.
- ✓ Interviews were conducted according to a preset list of questions pertaining to a number of centre development aspects:
 - Ownership and land issues;
 - Cost structure of projects;
 - Tenanting issues;
 - Rentals;
 - Development yields;
 - Take-up and lease periods;
 - Centre design and sizes;
 - Consumer behaviour;
 - Market research;
 - Success factors;
 - Major challenges & lessons learnt;
 - Impact on local businesses & mechanisms to move into formal centres;
 - Knowledge of the SASCS centre hierarchy and applicability to second economy areas.

These findings were integrated and general trends were compiled and included in the market research document.

1.7 REPORT OUTLINE

The remainder of the report is structured in terms of the following main headings:

- Chapter 2: Township Transformation and Property Markets
- Chapter 3: Changes in Consumer Landscape
- Chapter 4: Retail Centre Supply Trends
- Chapter 5: Case Study Introduction
- Chapter 6: In-Depth Case Study Analysis – Jabulani Mall
- Chapter 7: In-Depth Case Study Analysis – Central City
- Chapter 8: In-Depth Case Study Analysis – Liberty Promenade
- Chapter 9: In-Depth Case Study Analysis – Umlazi Mega City
- Chapter 10: In-Depth Case Study Analysis – Thula Plaza
- Chapter 11: In-Depth Case Study Analysis – NkowaNkowa
- Chapter 12: Impact on Local Businesses and Informal Trade
- Chapter 13: Centre Development Dynamics
- Chapter 14: SWOT Analysis and Impact Assessment
- Chapter 15: Development Recommendations.