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Mall of Africa adds to glut in retail space

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WHEN Attacq snips the ribbon on its Mall of Africa in Johannesburg today, it will add to an oversupply of retail space that threatens to topple the best returns among the country's real estate investment trusts.

The R5 billion centre north of the city will add 130 000 square metres of stores, the largest first-phase mall development in southern Africa, according to Attacq.

South Africa has more than 23 million square metres in shopping centre space, placing it seventh globally and ahead of all the countries in Europe, with another 2 million square metres under construction or planned, according to Urban Studies, a property market research firm.

"There might be a general oversupply in the country, but in specific areas, like Waterfall where the mall is located, there is still a huge need," said Louis van der Watt, the chief executive of Atterbury Property, which owns 20 percent of the centre. "There are approximately 100 000 households in the immediate surroundings without adequate shopping facilities."

The roll-out of new malls and an acceleration in consumer spending is defying the slowest expansion in gross domestic product since the 2009 recession, the highest interest rates in six years and an unemployment rate of about 25 percent.

Defying slowdown

It could not last, and rising inflation and the deteriorating economy would eventually take its toll, Zandile Makhoba, an analyst at real estate services firm Jones Lang LaSalle, said.

"A lot of the new developments are in proximity to existing malls, which suggests they'll be competing for the same consumers, who are most likely to be less willing to spend as economic conditions get tighter," she said.

The SA Property Owners Association estimated vacancies of less than 3 percent in the country's malls. Those risks are not hampering the performance of companies that build and operate shopping centres, which are the best-performing real estate investment trusts (REITs) this year.

Redefine Properties, which owns the Centurion Mall in Pretoria, leads the pack with a 23 percent return, compared with 4.5 percent for the all share index and 7.8 percent in bonds.

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Attacq and Resilient REITs have returned 17 percent and 16 percent this year.

REITs that favour office and industrial space are among the worst performers on the South African-listed property index, with Emira Property Fund losing 2.8 percent, while Investec Property Fund has returned 2.1 percent this year.

Oversupply

The current influx of new shopping centres reflected the length of projects and how some developers "pull the trigger" at the top of the business cycle and delivered the completed centres in a downturn, Marvin Nair, the head of new business in real estate finance at Standard Bank Group, said.

Urban Studies partner Dirk Nico Prinsloo said: "There is retail space oversupply in particular in the metropolitan areas because of the economic downturn."

He added: "That should subside within two years because of population and potential employment growth." – Bloomberg