

# SOUTH AFRICA

*Cushman & Wakefield*  
*Global Cities Retail Guide*



***South Africa occupies the southern tip of Africa, its long coastline stretching more than 2,500km from the desert border with Namibia on the Atlantic coast, southwards around the tip of Africa, then north to the border with subtropical Mozambique on the Indian Ocean.***

South Africa is one-eighth the size of the USA, twice the size of France, and over three times the size of Germany. South Africa measures around 1,600km from north to south, and roughly the same from east to west.

It has three capitals; Cape Town is the legislative capital and is where the country's Parliament is found; Bloemfontein is the judicial capital, and home to the Supreme Court of Appeal and Pretoria is the administrative capital, and the ultimate capital of the country. The largest and most important city is Johannesburg, the economic heartland of the country. Other important centres include Durban and Pietermaritzburg in KwaZulu- Natal, and Port Elizabeth in the Eastern Cape.

It is a large market of some 55.5 million people, half of whom are aged under 17 years of age. International travel to South Africa has surged since the end of apartheid, and tourism is also one of the fastest growing sectors of South Africa's economy. South Africa hosted the Fifa World Cup in 2010, the first time it had been hosted in an African country and is seeing the rewards of a higher profile on the global stage.

South African consumers have not always been interested in international brands, but this is changing. The relatively small size of the middle class means brands have to present themselves as more aspirational than they may be in their home market.

Domestic growth is unlikely to break the 3% barrier this year, as the effects of a global economy grappling with sovereign debt issues, bail-out hangovers and slowing growth continue to dampen prospects for improvement. This means that the South African economy cannot rely on demand from abroad for growth opportunities. The private sector is seeking economic policy reforms to assist in economic growth and job creation, two of the government's main priorities. This policy reform and massive infrastructure spending which are sorely needed for the economy to achieve any reasonable growth in the medium term, are yet to materialise.



## SOUTH AFRICA OVERVIEW

# SOUTH AFRICA

## ECONOMIC OVERVIEW

### ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2017F	2018F	2019F	2020F	2021F
GDP growth	0.9	1.6	1.8	2.0	2.4
Consumer spending	1.1	1.3	2.3	2.2	2.6
Industrial production	0.9	0.8	1.0	1.2	1.3
Investment	0.2	1.3	1.9	2.1	2.3
Unemployment rate (%)	27.7	28.1	27.9	27.5	27.0
Inflation	5.3	5.2	5.4	5.4	5.4
ZAR/ € (average)	15.2	17.0	17.7	18.4	19.1
ZAR/ US\$ (average)	13.4	14.2	14.7	15.3	15.8
Interest rates Short term (%)	6.9	6.8	6.8	7.0	7.3
Interest rates 10-year (%)	8.8	9.4	9.6	9.6	9.6

### ECONOMIC BREAKDOWN

Population	55.5 million (2017F)
GDP (nominal)	US\$ 344.5 billion (2017F)
Public Sector Balance	-4.1% of GDP (2017F)
Public Sector Debt	55.6% of GDP (2017F)
Parliament	Multi-party democracy
Head of State/ President	Cyril Ramaphosa
Majority Party	African National Congress
Election Date	2019

### RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

SOUTH AFRICA	2017F	2018F	2019F	2020F	2021F
Retail Volume*	0.4%	0.9%	1.4%	1.8%	2.3%

Note: \*annual % growth rate unless otherwise indicated. Figures are based on local currency and in real terms. E estimate F forecast

Source: Oxford Economics Ltd.

CITY	POPULATION
Johannesburg (metro)	10,016,000
Cape Town	3,433,441
Durban	3,120,282
Bloemfontein	2,759,644
Pretoria	1,619,438
Port Elizabeth	1,300,000
Polokwane	508,277



# SOUTH AFRICA LARGEST CITIES

# SOUTH AFRICA

## RETAIL OVERVIEW

### MAJOR DOMESTIC FOOD RETAILERS

Pick 'n Pay, Shoprite Checkers, Spar, Woolworths Food, Game

### MAJOR INTERNATIONAL FOOD RETAILERS

Walmart

### MAJOR DOMESTIC NON-FOOD RETAILERS

Edgars, Foschini, Mr Price, Ackerman, Jet, Pep, Woolworths, Clicks

### INTERNATIONAL RETAILERS IN SOUTH AFRICA

Zara, Mango, Soviet, Levi's, Gucci, Burberry, Max Mara, Hugo Boss, Haagen-Dazs, Rolex, Dior, Louis Vuitton, Fossil, Apple iStore, Topshop, Canterbury, Forever 21, L'Occitane, Bally Shoes, Burberry, Swarovski, Crabtree & Evelyn, Timberland, Starbucks, H&M

### FOOD AND BEVERAGE OPERATORS

McDonalds, KFC, Burger King, Pizza Perfect, Fishaways, Steers, Spur, Adegas, Keg, Nando's, Krispy Kreme

#### TYPICAL HOURS

##### MONDAY - FRIDAY

9:00 – 19:00

##### SATURDAY

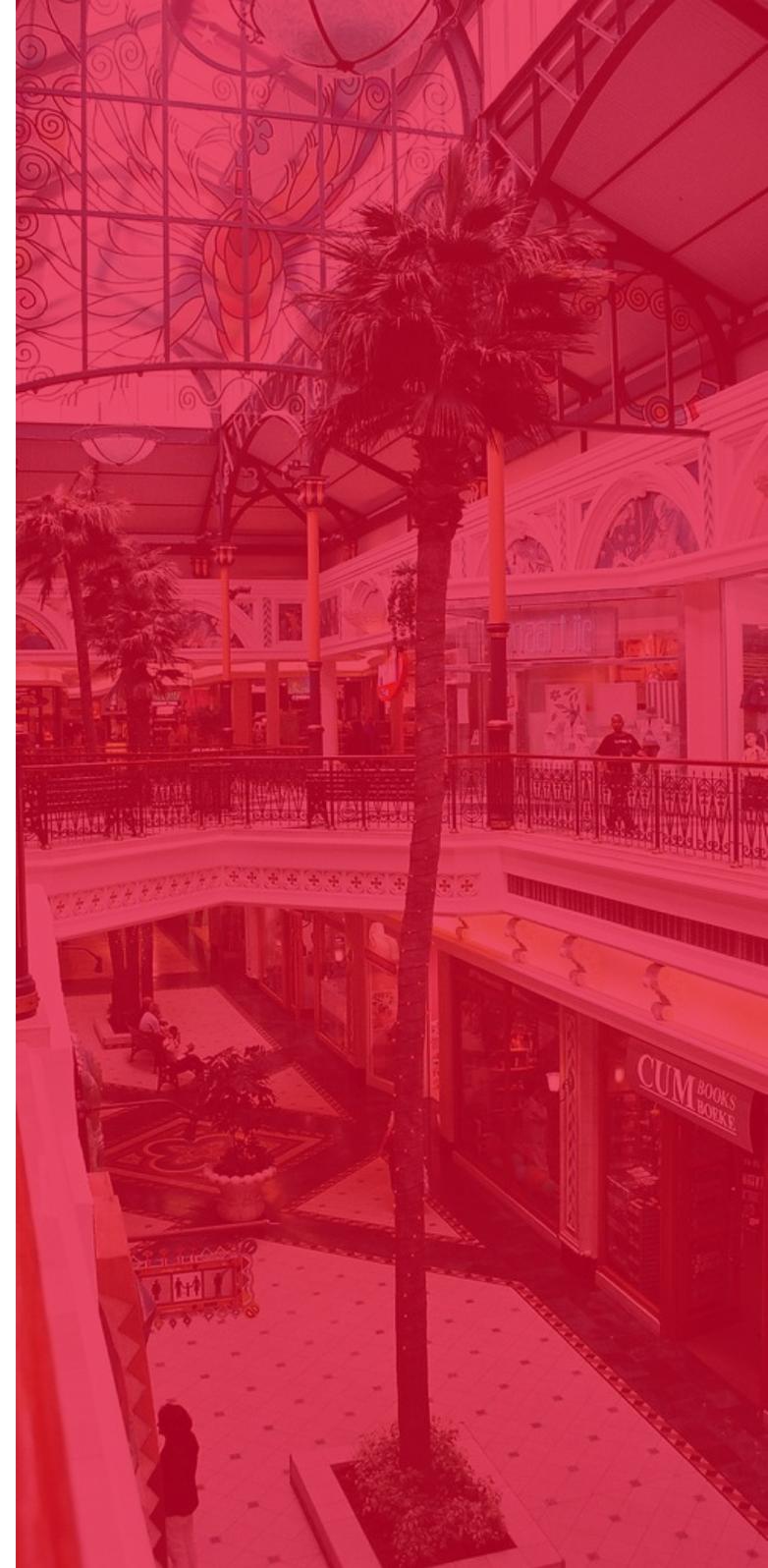
09:00 – 20:00

##### SUNDAY

9:00 – 18:00

#### NEW ENTRANTS TO MARKET

Zara	Levi Strauss	Canterbury	iStore
Walmart	Forever 21	Starbucks	Krispy Kreme
Cotton On	Topshop	H&M	



# SOUTH AFRICA

## RETAIL SCENE

***South Africa, with a population of some 55.5 million people, has one of the most developed retail markets in Africa. Development in South Africa is almost as extensive as in the UK or France.***

The growth of the black middle class has helped increase consumer spending. Retail sales, the main indicator for the industry, have been losing momentum after a period of strong performance which bucked the trend for the rest of the economy. This outperformance will be missed by the larger economy if it slows dramatically and could have a significant impact on GDP. As a result, retailers and shopping centre owners will have to work hard towards attracting customers to maintain turnover targets.

The retail market is dominated by large retail chain supermarkets and hypermarkets such as Shoprite Checkers, Pick n Pay, Spar and Woolworths. The range of outlets also includes convenience stores/ petrol station forecourt stores, small general dealers (Seven Eleven stores and the like), specialty stores handling a single product line (such as health foods, confectionery, fish or meat), and other independents such as general dealers, cafes, spaza shops, street vendors, and hawkers. (a spaza shop is an informal convenience shop business in South Africa, usually run from home. They also serve the purpose of supplementing household incomes of the owners, selling everyday small household items.) Together with street vendors and hawkers, spaza shops make up the informal sector of South African retail. This sector grew as a result of sprawling townships that made travel to formal shopping places more difficult or expensive. According to AC Nielsen, some 70% of all retail sales are done through 6% of retail stores, which include the major supermarkets, the branded forecourt stores and franchises. The retail market remains fragmented with more than 80,000 independents and spazas selling the remaining 30% of goods.

The major retail chains have enormous purchasing power and are in a position to dictate their buying terms to suppliers who are generally required to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores nationally.

Access to the smaller formal retailers is generally through agents and distributors. The informal retailers and spaza shops generally procure in bulk through wholesalers such as Makro, Trade Centre and the hypermarkets in the large cities.

The youth of today also plays a big role in the retail sector, due to their significant spending power. This is also evident when looking at the brands of clothing the youth are purchasing; it has become more and more evident that the youth care about the brands they purchase, and this influences the market tremendously. Longer shopping hours are also becoming a more and more evident feature of major retail facilities and they have been a positive impact on the success of the retail sector. The introduction of various international brands including Zara, H&M, Krispy Kreme and Starbucks is becoming more and more evident in most of South Africa's major retail facilities.

Although online and smartphone shopping are gaining importance as retail channels in South Africa, it will be some time before this trend reaches the levels already found in the US and Europe. US department store Macy's, and others, are making products available to South African shoppers in rands with a six-to eight-day delivery, and local retailers such as Mr Price are becoming more active in e-commerce. Access to smartphones has significantly increased internet penetration. Online shopping accounts for a very small proportion of online sales but in the future it may arguably pose some degree of threat to traditional retailers in an already tough market.

The demands and expectations of South African shoppers has changed over the past few years, particularly when it comes to the convenience and variety of products available. There are currently 18.4 million e-commerce users within South Africa, and by 2021 it is expected that an additional 6.4 million users will join the online shopping world. E-commerce allows South African retailers to compete within the global market place. Convenience is now the "name of the game" and mostly guarantees the return of customers, thus more and more shoppers are opting for e-commerce due to the convenience factor.

It is possible to enter the South African retail market direct, though many also franchise and enter via concessions/ shop-in-shops.



# SOUTH AFRICA

## SHOPPING CENTRES

### TOP TEN SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
Gateway Theatre of Shopping	Durban	220,000 sqm	2001
Menlyn Shopping Centre	Pretoria	173,701 sqm	1979
Sandton City	Johannesburg	147,941 sqm	1973
Canal Walk	Cape Town	146,828 sqm	2000
Mall of Africa	Johannesburg	131,000 sqm	2016
The Pavilion	Durban	122,499 sqm	1993
Eastgate Shopping Centre	Johannesburg	122,000 sqm	1979
Westgate Shopping Centre	Johannesburg	109,418 sqm	1985
Cresta Shopping Centre	Johannesburg	105,000 sqm	1976
Clearwater Mall	Johannesburg	86,028 sqm	2004

# SOUTH AFRICA

## KEY FEATURES OF LEASE STRUCTURE

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ITEM	COMMENT
Lease Terms	Traditionally, South African leases have been for a term of 5 years with an option to renew. Anchor tenants leases are usually 10 year terms. Break options were rare in the past but now increasingly negotiable. In the absence of a clear agreement in the lease, the tenant has no legal right to break so long as the landlord fulfils his obligations. Where agreed, breaks are typically at the first rent review for office and industrial space but are not currently common for retail. The authorised use will depend on the terms of the lease which will also state the degree to which this may be varied by the tenant.
Rental Payment	Rents are typically payable monthly in advance. Turnover/percentage rents are common place in shopping centres and factory outlets, hotels and airports. A security deposit is not normally required for a tenant with a strong covenant or where a parent company guarantee (or less frequently a bank guarantee) is provided. For weaker covenants, a deposit will be required with at least 3 months rent equivalent commonplace.
Rent Review	Indexation is common practice, together with fixed uplifts in rental.
Service Charges, Repairs and Insurance	A service charge is usually payable in multi-tenanted buildings and covers management fees, security, cleaning, landscaping, internal maintenance of common parts, external maintenance and insurance, servicing of elevators, water, heating, air conditioning, management fees and property taxes. It excludes internal maintenance and insurance of rented accommodation, utility charges and VAT. The landlord is responsible for external /structural matters in shopping centres (charged back via service charge) or tenant (except in multi-let buildings). The tenant is responsible for internal matters. The landlord usually insures the main structure and external fabric but will charge this back to the tenant. Insurance for common parts is also paid by the landlord and charged back. The tenant usually pays for internal insurance directly.
Property Taxes and other costs	The local government authority charge the "rates," the local property tax, which is payable on commercial property. The government sets rateable value on an ad hoc basis. VAT at 14% is not charged on rental payments (tax advice should be sought).

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ITEM	COMMENT
Disposal of a Lease	Sub-letting is usually possible under the terms of the lease, subject to landlord's approval. Assignment rights are not normally barred in the lease but will also be subject to consent, which should not be unreasonably withheld. Early termination is only by break clause, to be negotiated at outset of lease by mutual consent upon negotiation. At lease end, the tenant is responsible for re-instating the premises to the same condition as at the start of the lease, subject to normal wear and tear. All tenant improvements must be approved by the landlord subject to the alteration covenant in the lease and the fact that approval should not be unreasonably withheld.
Valuation Methods	N/A
Legislation	A mandatory standard form of lease does not exist although a market standard is in place. There have been varying initiatives to simplify and shorten the lease, particularly to help smaller businesses.

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