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Thank you for joining the South African Council of shopping centers on our third podcast. The subject of this podcast is the South Africa quarterly retail trading density index 2021. Quarter Three results. This index produced by MSCI and sponsored by the South African Council of shopping centers provides a valuable quarterly insight to the broader retail community into the performance of the formal retail property sector. Stay tuned as we head over to Eileen Andrew, the Vice President of client coverage at MSCI real estate for a summary of the retail trading index third quarter results for 2021.

Hello, and thank you for listening to the MSCI ssec podcast. This podcast will focus on the quarter 320 21 trading density results, we'll explore the trading density across various shopping center tabs consider the impacts of the rats in July. Look at tenant category trends and tenant affordability. Before I start allow me to introduce MSCI and contextualize our data and methodology. The MSCI real estate has been measuring property returns in South Africa since 1999. The data itself goes all the way back to 1995. We measure direct property returns in 33 countries globally. And we use the same methodology we ever we measure property that makes our property data comparable across geographies and property types are data's own verified, which means we don't scrape data. Our data comes directly from the owners themselves, they verify and sign off on their data, which really ensures a very high level of accuracy. In South Africa data set is about 400 billion rand big. That's about two and a half 1000 properties. The trading density data is got 111 shopping centers in it. That's over 5 million square meters of shopping center space and about 14,000 tenants. We collect that data quarterly but the data itself has monthly that's a huge amount of detail. The index is updated and published on a quarterly basis showing a quarter on quarter annualized growth rate. This allows us to check seasonality in the spend, we report that then at a shopping center level. So super regionals regionals and so on. And these definitions align with ACCSC. Overall trading density has grown again this quarter by 12 and a half percent. This growth surpasses last quarters growth of 7.6%. We should continue to bear in mind that this comes with quite a low base because April and May of last year when shopping centers weren't allowed to trade anything except essential goods is in the base, which does affect the growth rate. Nevertheless, this is significant and the kind of growth that we need if we want trading densities to surpass pre COVID levels. If we compare mantha main trading density to the same quarter in 2019, July 2021 was marginally down. August was on par and September was up. So that's all great, right? But if we compare foot counts for the same month, these are down July was down by about 40% August and September down by about 35% foot cancel all three months a Sati below quarter 320 20 as well impacted both by the third wave of COVID this year, but also by the rats in July. But let me park that for now. And I'll come back to in a little bit. Overall trading density has recovered to pre COVID levels, but footcandle nowhere near this raises an interesting question around the structural changes facing retail. And by that I mean our shop is fundamentally changing the way that they choose to interface with shopping centers. I'm not going to hit into a conversation around online sells because trading density being comparable to pre COVID levels tells us that spend is still taking place in shopping centers. The changes how often people choose to frequent our malls, we can hypothesize that initially fewer more visits were a result of COVID fears. However, we didn't really see numbers drop off in the winter of this year during the peak of the third wave. We also didn't see them pick up as the wave abated instead foot counts remain steady throughout 2021. Does this mean that COVID has entrenched new shopper behavior in our malls, where shoppers are going less often but spending more than each visit. We haven't actually seen this trend emerging since 2017. But it was subtle COVID has brought it to the fore and exacerbated it. Simultaneously we need to consider the return to office dynamics that are currently applied. office workers have a substantial effect on shopping centers centrally located within prime office nodes. Even though centers located along arterial commuter routes are affected by shoppers commuting to and from work. We may see food cans pick up if office workers return to officers. But will we see the spend actually increased as well. This is going to be very interesting to watch next year as we head into 2022. But let's turn our attention to the long standing trend that we've been seeing playing out for a while now. And that is small versus large format retail While there has been trading density growth across all shopping center tap since the initial shocks of COVID. Only community shopping centers have shown growth to above pre COVID levels. larger format centers are near where they were in 2019. But they're not quite there yet. And the last trading density growth for community shopping centers in q3 was 18.8%. With Super Regionals not far behind at 15.4%. All other formats grew by about 10%. If Super Regionals continue to grow at the same rate into quarter for their trading density will surpass that of 2019. I said earlier, I'll talk a little bit about the impact of the riots in July. While damage was extensive to many malls, and the cost to rebuild. These are high in some instances, in the broader scheme of things shopping centers across South Africa. And the impact on trading density in the month of July, was actually reasonably small. Many of the listed friends reported the trading was not disrupted for prolonged periods. And we can actually see that coming out in the numbers. Comparing July of this year to 2019. Trading density for larger format most was down by 7%. But it was actually up in smaller format centers. This does have a lot to do with the location of the malls across South Africa. If we focus on specific geographies, the impact would be greater. The bottom line is that fortunately, the riots were not widespread and severe enough to have significant impact on the overall trading density figures. Turning our attention to the rent to sales ratios, which demonstrate the relationship between gross rent that the tenant pays and the turnover that they generate. Overall, it has come down a little bit more this quarter to 8.1%. because of the increased sales and the rentals, which continue to decrease by minus 2.3%. The current rent sales ratio is slightly above where it was in 2019, perhaps indicating that rentals master come down a little bit more over the next few quarters. across the different property types, the narrative on rental sells is the same except for community shopping centers where the ratio is similar to what it was back in 2012 at about 5%. That means the tenants are paying the same rental in relation to the turnover that they earn that they were doing back almost eight years ago. Before I talk about how well 10 and categories are performing, I want to explain that MSCI categorizes tenants into 27 primary categories and 65 secondary categories. For example, we testify a shoe shop is a parallel to primary category, and then choose would be the secondary category. This provides a huge amount of detail the data comparing q3 to q2 in this year, luggage and super regional centers has increased by 14%. I guess we're all going on holiday in December and now that we free to travel and long may have lost across the largest format malls speciality electronics, accessories, and jewelry and health and beauty all grew between three and 5%. On the other end of the scale, though, entertainment continued to suffer especially in regional shopping centers, which was down 25% Apparel has also done in the larger format malls around 10% On average, also down to a much lesser extent was department stores food services and books, cards and stationery. I've saved the real positive for last and that's the vacancy numbers. Overall vacancy went down to 6% in q3 After hitting an all time high in q2 of 6.8%. Granted, it's probably early days to draw any real meaningful conclusions from this, but it's still nice to see because vacancies have gradually risen from 3.9 to 6%. Over the last two years. These rising vacancies are really a growing concern for more owners and investors alike because the pool of tenants requiring space in our malls is really under pressure because of economic headwinds. We've seen some international tenants test the waters in South Africa over the last few years, some with more success than others. However, it does seem like that stream has dried up of late. The contraction in vacancy, however small and premature it might be right now we'll be watching with keen eyes in the upcoming quarters. I'm going to end this podcast with a recap of our road to recovery so far. in quarter one, I told you that there were signs of recoveries and that rental still needed to come down to create affordability for tenants. In q2, I said that we needed economic growth and certainty in the second half of 2021 to see proper recovery. We have seen some economic growth, but I'm not so sure about certainty. There has been an uptake of COVID vaccinations, but is it enough to dampen the fourth wave and keep the beaches open over December in quarter three trading density continue to improve, although how shoppers interact with shopping centers is not the same as it was pre COVID. Maybe that's because of the fear of COVID. Or maybe it's because we don't computer offices as much at the moment or maybe a little bit of both. So let's watch what happens in 2022 in the space. The unrest in July had limited impact on overall and I must emphasize overall trading densities, which was a big relief. It's encouraging to see tilt affordability measures such as rent to sales ratio coming back a little bit and that vacancies are pulling down. Once again as you personally To be vaccinated for the good of our collective health in our economy as we hit into December and the festive season. Thank you for listening to the podcast. Stay safe, get vaccinated and go back.

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