

## Risky business? Investing in township/rural centres vs urban malls

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In the early 1990s, no banks would provide funding to property companies for developing shopping centres in townships or rural areas. The risks were perceived to be insurmountable, and lenders had no awareness of the types of tenants that would make these property investments a success. Coming out of the apartheid era, these areas suffered exceptional poverty and unemployment – and a lack of almost any kind of useful service.

Futuregrowth recognised an opportunity – and a dire need – at this time for infrastructure development in townships and rural areas, and, in 1995, the Community Property Fund was born. By establishing shopping centres in these areas, local municipalities would receive a boost in rates, which would enable them to deliver much-needed bulk services to the community. Futuregrowth also jumped at the chance to assist in alleviating poverty, by creating local employment during the construction phases and, where possible, on a permanent basis once the shopping centres were complete.

Today, there are over 10 805 staff employed across the shopping centres owned by the Fund. These centres have also brought many essential goods and services into the community, and expedited the establishment of efficient commuter nodes and improvements to the local transport infrastructure.

### False impressions

The lack of investment in township and rural shopping centres has historically been due to many misperceptions, which we would like to counter with the following facts relating to our Fund:

Perception	Reality (in the case of the Community Property Fund)
Poor quality buildings	Shopping centres owned by the Fund, such as Bridge City, Alexandra Plaza and Eyethu Orange Farm Mall, have been built to the highest standards and quality. These shopping centres would not be out of place in any upmarket urban area.
Safety concerns, theft and vandalism	These risks are mitigated through additional spending on security (double the industry average per square metre).
Inferior service levels	Our centre manager and management staff are trained according to national standards and would be able to manage any type of shopping centre anywhere in the country.
Lack of quality retailers	85% of our tenants are reputable national retailers found in most urban centres.
Lack of a variety of product and service offerings	Due to the high number of national tenants, there is consistency in the quality and quantity of products and services offered. Retailers such as Shoprite and Pick 'n Pay understand the needs of their consumers and tailor their stores accordingly.
Volatile communities	Service delivery protests have not affected the shopping centres owned by the Fund. This is largely due to the emphasis placed by the Fund on creating jobs in the local community, and supporting local schools through various projects. (On average, 80% of the workforce employed in the shopping centres is from the local community.)
Lower rentals	Retailers do pay lower rentals than in urban areas; however, land and building costs are cheaper in these areas, which still enables the Fund to achieve a feasible return on its investments.
Lower profits	National retailers at some of the centres in the Fund generate a turnover that is two to three times higher than their national average. This is due to the growing population, increased housing densification, a lack of quality competition in the area, and an increase in social grant recipients. These stores often have a cost of occupancy that is between 5% and 6%, in comparison to urban area shopping centres which could be anywhere between 7% and 10%.

There is a common belief that urban malls serve a much higher LSM bracket than township and rural centres and as such would deliver better profits for retailers, better rentals for landlords and better performance for investors. However, this is not necessarily the case:

1. Township and rural shopping centres are **defensive in nature** and perform well throughout economic cycles, due to their focus on essential goods and services. Consumers tend to cut back on discretionary spending during tough economic times. Higher-end retailers (usually represented in urban malls) tend to struggle at such times and have a more cyclical business model.
2. Township and rural shopping centres have mainly **cash-based consumers** and the demand for formal retail in these areas will continue to be supported.
3. Online retail has and will continue to impact urban malls, and many retailers have made a concerted effort to upgrade their online shopping platforms, while considering trimming their physical stores. Online retail has not yet impacted the township and rural shopping centres, where the average spend per day per consumer is currently between R30 and R100, depending on the area. We do however envisage that, with a growing middle income market in these areas, where home delivery would be more challenging, online retail will become increasingly important. We have therefore started investigating setting up **online retail drop-off points**, whereby ordered goods can be couriered to the Fund's shopping centres and collected from the centre management offices.
4. Oversupply of retail shopping centres is currently mainly occurring in urban areas. Moreover, regional shopping centres (50 000 to 100 000 m<sup>2</sup>) and super regional shopping centres (greater than 100 000 m<sup>2</sup>) are expanding, which further **cannibalises the market**.
5. The barriers to entry in township and rural markets are high due to the lack of readily available land for development, poor infrastructure, and municipalities that are not well equipped to assist. Here, it can take up to seven years to start the construction of a new shopping centre, as opposed to about three years in urban areas. This **reduces the likelihood of oversupply** in township and rural areas as this time horizon tends to deter many investors.
6. Increased growth in population, social grants and emerging middle-income consumers will continue to drive **growth in the township and rural markets**.

## Returns justify investment into township and rural shopping centres

As a tangible example of what can be achieved with rural and township investments, the Futuregrowth Community Property Fund has won the MSCI award for best performing specialist property fund (with the highest 3-year annualised total return) for three years in a row (2017 to 2019). With intensive, professional centre management and rigorous attention to building customer loyalty and community support, the Fund has demonstrated that perceived risks can be effectively mitigated and overcome – and that investments in townships and rural areas can out-perform investments in urban centres.

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