Market Dynamics • The Opportunity • Future Gazing

Africa Retail Report

INTRODUCTION

The retail sector has been one of the hardest hit sectors on the back of supply chain disruptions and government measures adopted to curb the spread of Covid-19.

Lockdowns represented an unprecedented shock for retailers with non-essential services being shut down and demand ceasing.

With many countries beginning to lift lockdown measures and gradually return to some form of normality, we have seen the sector begin to recover.

While it is still too early to confirm the long-term impact of the pandemic on the retail sector, it is clear that it has accelerated pre-existing trends and prompted some new innovative thinking around the sector moving forward.

The scale of impact caused by the pandemic has prompted landlords to consider incentives and rethink rent models in order to attract and retain tenants. Further, governments across the continent are undertaking social and economic reforms in order to spur consumer spending and incentivise retail development.

More critically, the level of market rebound seen across the continent demonstrates the sector's resilience and increasing demand for formal retail.

Although several retailers have exited across key markets, which has affected investor confidence, we believe opportunities for expansion and development continue to abound based on key influences and access to market intelligence by investors.

Whether you are an investor, retailer or landlord, I am sure you will find this report extremely valuable and useful.

If my team or I can be of any help, please do not hesitate to contact us.

Marc Du Toit,
Head of Retail
Knight Frank Africa.

AFRICA RETAIL REPORT 2020

The Acacia Mall - Kampala, Uganda

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MARKET DYNAMICS

As a result of the economic challenges, some stemming from and others exacerbated by COVID-19, we have seen performance in Africa's retail sector remain subdued.

Across Africa, retail rents have softened by 6% on average in the six months to September 2020. This trend has been underpinned by retailers seeing demand levels soften on the back of a weaker economic climate which has been caused largely by the pandemic and restrictions on mobility.

While footfall in shopping centres saw a sharp decline in early April across the region, we have seen recovery ensure in all markets with current footfall levels being recorded at between 70% and 90% of their pre-Covid traffic as at Q3 2020.

Given lower levels of demand, data from Oxford Economics indicates that resident based retail sales across Africa are expected to contract by 5% on average in 2020. Where economies were already considerably challenged pre-pandemic such as those of Harare and Johannesburg, retail sales are expected to contract more sharply which contractions forecast at 31% and 12% respectively.

Neighbourhood malls recorded a higher rebound in retail sales and footfall in Q3 2020, as consumers moved from enclosed malls to more convenience-based, open air neighbourhood malls. This trend can be attributed to consumers being fearful of excessive human engagement, shopping closer to home due to work-from-home patterns and the closure of entertainment venues, cinemas and gyms that traditionally anchor large enclosed malls.

AFRICA PRIME RETAIL RENTS

	PRIME RENTS			RETAIL SALES Q3 2020
CITY	Q3 2020 (US$/SQM/MONTH)	6 MONTHS CHANGE	6 MONTHS TREND	Y-OY % CHANGE
ABIDJAN	25.0	0.0%	→	-0.4%
ACCRA	63.0	-10.0%	↓	-0.9%
ADDIS ABABA	17.0	30.8%	↑	-12.3%
ALGIERS	33.0	0.0%	→	-10.3%
ANTANANARIVO	17.0	0.0%	→	0.1%
CAIRO	65.0	8.3%	↑	5.5%
CAPE TOWN	38.5	-20.0%	↓	-11.5%
CASABLANCA	35.0	40.0%	↑	-1.8%
DAKAR	23.5	0.0%	→	-0.6%
DAR ES SALAAM	14.0	-12.5%	↓	0.7%
DOUALA	35.0	-16.7%	↓	-0.7%
GABORONE	15.0	-36.8%	↓	-4.2%
HARARE	10.0	-50.0%	↓	-30.6%
JOHANNESBURG	60.7	-19.9%	↓	-11.8%
KAMPALA	25.0	8.7%	↑	-0.5%
KINSHASA	35.0	16.7%	↑	-1.0%
LAGOS	50.0	-39.8%	↓	-5.1%
LIBREVILLE	22.5	-10.0%	↓	-4.3%
LILONGWE	20.0	0.0%	→	-3.6%
LUANDA	55.0	-31.3%	↓	1.3%
LUSAKA	25.0	0.0%	→	-5.2%
MAPUTO	26.5	-5.4%	↓	-2.0%
NAIROBI	42.0	0.0%	→	1.9%
PORT LOUIS	32.6	-6.9%	↓	-6.3%

Source: Knight Frank Research, Oxford Economics

Operators in retail markets across Africa have witnessed a range of fragmented perfomance. We have seen notable operators exit major markets such as Shoprite closing outlets in Kenya, Spur exiting the Zambian market and Pep and TFG exiting the East Africa region. Whilst COVID may have played some part in these decisions, this trend has been largely underpinned by these businesses choosing to refocus on their core business or due to existing underlying economic challenges in these markets.

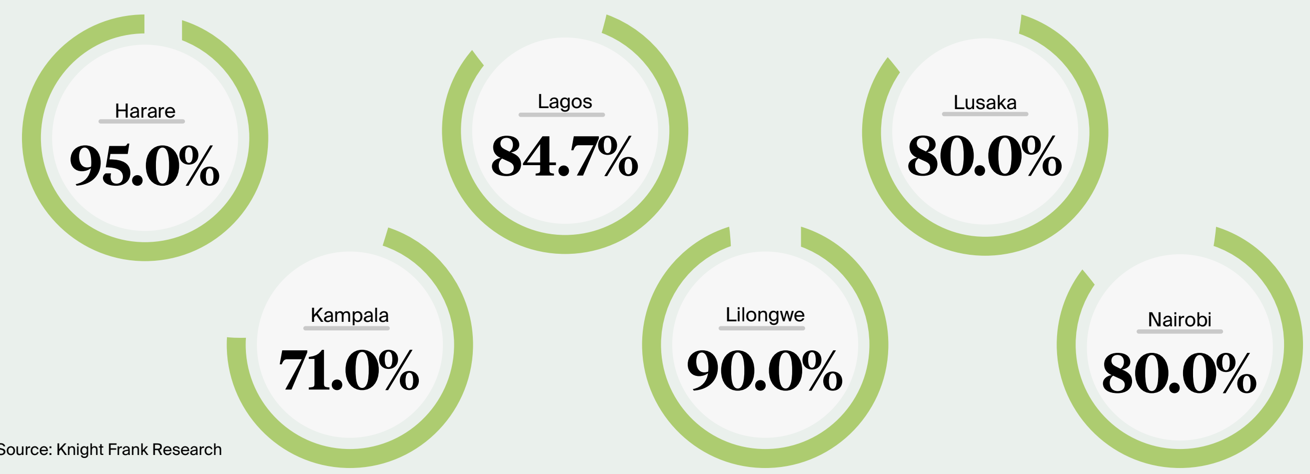
Despite economic and mobility challenges posed by Covid certain retailers recorded relatively strong perfomance. In Kampala and Nairobi branded fashion retailers have on average tripled their sales turnover compared to pre-Covid levels. These sharp increases have been underpinned by pent up consumer demand and redirected demand as a result of international travel ban, with significant portion of this demand favouring international brands.

Whilst some retailers have scaled down operations, others have used weaker market conditions to expand. Carrefour, for example, has grown its presence in Kenya, Tanzania and Uganda, with further expansion expected in five countries in the near term. Shoprite is also set to expand store numbers in Uganda and Zambia, with LC Waikiki also set to expand into Zambia and Uganda and increase its presence in Kenya.

Due to weaker economic conditions, retail landlords across the continent adopted a range of lease concessions in a bid to retain and attract new tenants. These concessions include rent deferrals and rent discounts. Rent discounts levels varied by the scale of the impact that lockdown periods had on retailers with retailers who were able to continue to operate during lockdown receiving lower discounts levels compared to those who were mandated to cease operations entirely.

Occupancy rates have remained stable despite exits by retailers across different markets, with rates in a majority of the regional shopping centres recorded at approximately 80% as at Q3 2020.

FORMAL RETAIL OCCUPANCY AS AT Q3 2020



Source: Knight Frank Research

THE OPPORTUNITY

We highlight key influences driving the retail market opportunity in Africa.

Sizing the Market

Outside of South Africa, which has a large and mature shopping centre market, formal retail development in the rest of Sub-Saharan Africa has seen a surge over the past ten years.

The transition to a mall culture has been spreading across Africa as offerings in malls adapt to consumer needs and consumers adapt to formalised lifestyle shopping excursions. However, informal retail continues to dominate the retail sector in the majority of markets.

Within the nine countries covered by this study, we estimate shopping centre space per capita at 0.31 square metres on average, which is significantly lower in comparison to developed markets such as the US and Dubai, where retail space per capita stands at 2.4 and 1.2 square metres respectively.

Lagos recorded the lowest shopping centre space per capita at 0.01 square metre while Gaborone recorded the highest ratio at 1.3 square metres.

Africa's growing population and ever more affluent middle class is set to underpin future demand for formal retail. Therefore, there are considerable development opportunities in this segment. However, developers must understand demand intricacies between countries.

For example, in Harare the number of middle income households is set to decline by 25% by 2025 due to weakening economic conditions, while middle income households in Dar es Salaam are set to increase by 32%.

Online Retail

There is no doubt that the pandemic has accelerated a change in consumer attitudes towards online retail, resulting in the adoption of online retail platforms by retailers across the continent.

Retailers such as Tuskys and Naivas supermarkets in Kenya have invested in online platforms in a bid to boost their offering to customers, while e-commerce platforms like Jumia reported a spike in both consumer and seller uptake, resulting in gross profit increasing by 38% in the year to Q2 2020.

In South Africa, online retail sales are anticipated to double this year according to Euromonitor and Nigeria's e-commerce revenue is projected to grow by 42% in 2020. While this trend is expected to continue to gain momentum across the continent, online retail penetration is still expected to remain low. Globally, online retail accounts for 15% of total retail sales, compared to just 1% in Sub-Saharan Africa.

As the market for formalised retail continues to be underserved, we anticipate the requirement for physical space across Sub-Saharan Africa markets will continue to be dominant, with online retail expected to compliment it.

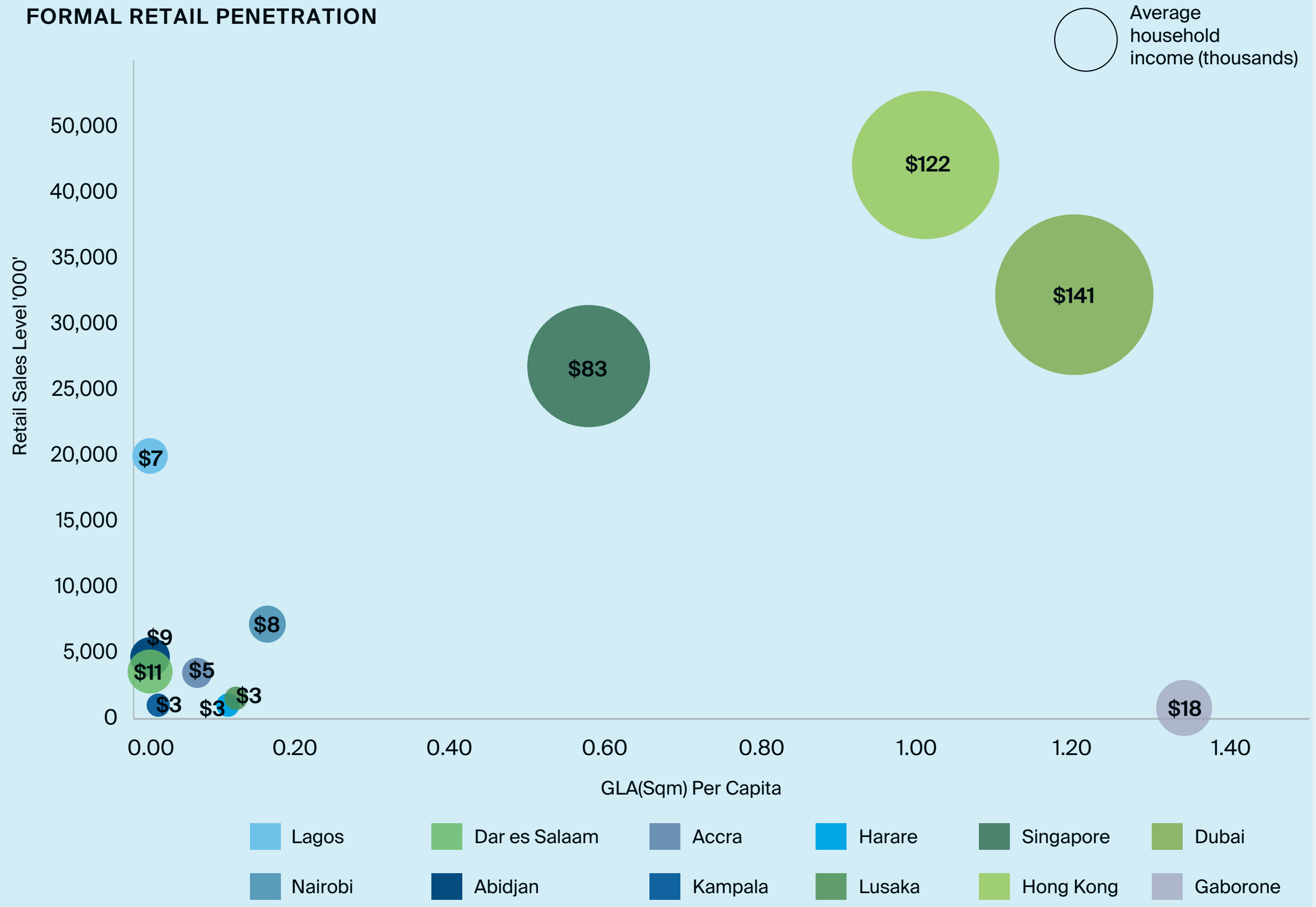
Niche Differentiation

The outbreak of Covid-19 has certainly slowed down retail development activity across the continent. However, due to localisation of retail demand, convenience and neighbourhood retail sectors have started to see increased levels of development activity and interest.

This trend has been further underpinned by increased relocations of people and businesses from city centres to the suburbs, resulting in increased concentration of retail demand.

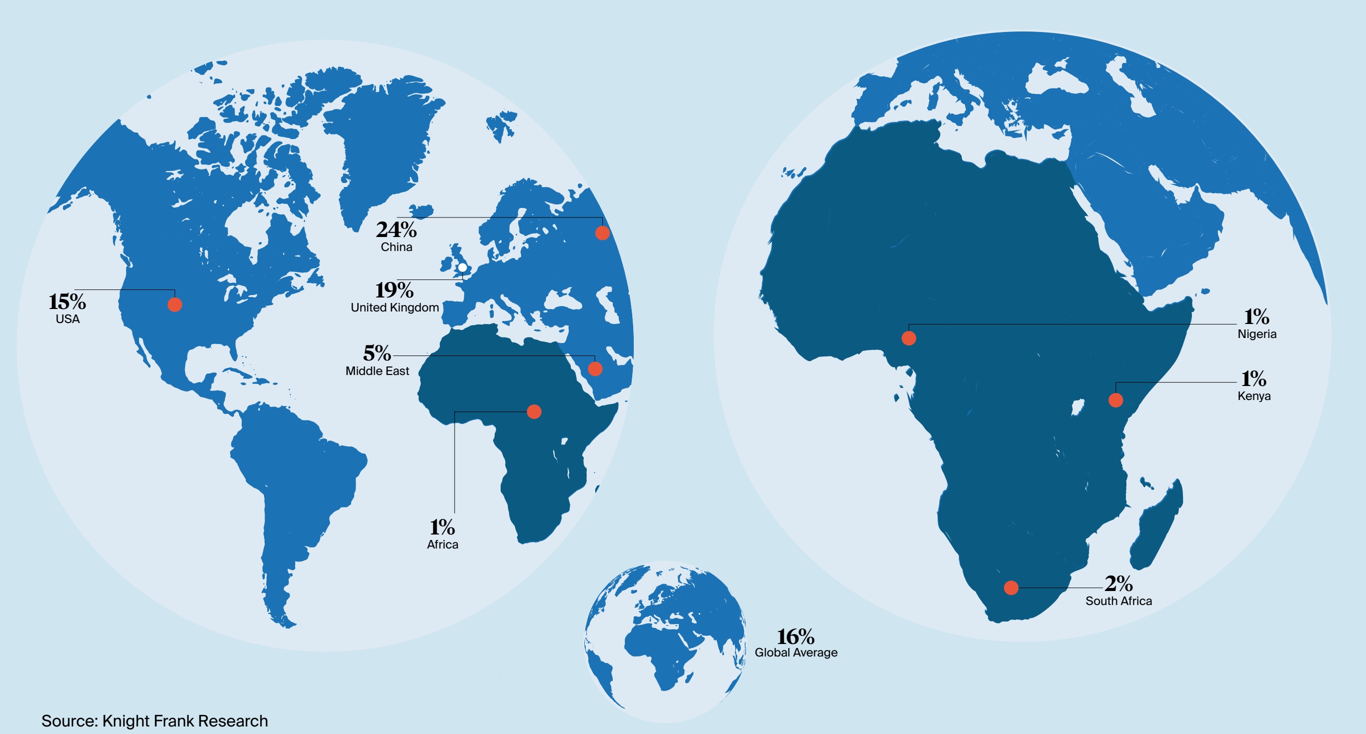
This increased economic activity in towns has underpinned the growth of and perfomance in neighbourhood retail centres. Retail activity in malls such as the Mukuba Mall in Kitwe along the Copperbelt in Zambia has continued to be fairly robust despite the pandemic.

FORMAL RETAIL PENETRATION



Source: Knight Frank Research

ONLINE RETAIL SALES AS A % OF TOTAL RETAIL SALES



Source: Knight Frank Research

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FUTURE GAZING

We highlight key trends that will impact the retail sector in the short to long term.

Turnover Based Rents

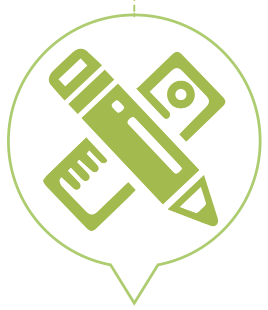
The retail sector has seen a shift in market balance to a tenant favoured market as landlords bid to attract and retain tenants. As a result, lease negotiations are set to consider rent models which include turn over components. According to Knight Frank's Africa Market Pulse Survey, the majority of retailers questioned indicated that they were open to considering turnover based rents with only 10% opposing such a model. This trend is anticipated to have a long-term influence on retail rent models across the continent.

The New Age Consumer

As Africa's population continues to rise, a gradual shift in consumer spending patterns is anticipated. Exposure to global brands and the desire to upscale lifestyle trends is expected to influence the type of retail demand. Increasing levels of market participation by internationally recognised retailers is likely to impact the tenant mix within shopping malls in the near to long term.

Leisure Boom

Entertainment and culture amenities are expected to be a key demand driver for Africa's youthful demographic. With a majority of such amenities likely to be located within retail developments. While the entertainment sector has been among the most impacted by the pandemic, we expect it will make a quick turnaround to reflect this demand.



Rethinking Design

With a greater emphasis on physical health and social distancing, the pandemic has accelerated the need for sustainable and flexible developments. Retail developments such as the East Gate Centre in Harare, have set a benchmark for this. Going forward formal retail development will therefore require inclusion of a suitable quantum of public facilities and spaces which can operate in social distanced scenarios.

Living with The Disease

Several measures adopted to curb the spread of the pandemic are likely to continue in the long term. As retailers, developers and consumers are learning to live in the "new world", we are seeing less frequent and shorter shopping trips with a more focused approach and reduced window shopping. Physical retailers must now invest in Omni-channel offerings in order to attract and retain customers.

BEYOND BORDERS

Surviving the ultimate stress test.
Stephen Springham - Head of Retail Research.

Generalising about international retail markets is a notoriously dangerous exercise – global retail markets are anything but homogenous.

Consumers differ massively, not just between countries but also between towns and cities within the same geographic jurisdiction. International markets are at very different stages of maturity and therefore the nature and quality of retail infrastructure varies dramatically.

Some are still playing ‘catch up’ in terms of their development of ‘modern’ retail floorspace, while others are at the opposite end of the maturity spectrum and are facing up to the realities of retail oversupply. Equally, online retailing is far more embedded in some markets than others.

Regardless of these profound differences, every international retail market has been shaken to its core in the wake of the Covid-19 pandemic, bearing testament to the levelling force the virus represents. For many, it is the ultimate stress-test – and frankly, one that the retail sector could have happily done without.

For all its perceived devastation, Covid-19 has not actually brought anything new to the table. It has merely accelerated processes of change and evolution that were already underway.

In less mature markets, it has reinforced the need for modern, fit-for-purpose retail floorspace and will ultimately, when the dust settles, kick-start a fresh wave of development.

For more mature markets, it has laid bare the structural challenges that were bubbling away beneath the surface and provided an overdue wake-up call that these must be addressed head-on.

Generic takeaways from Covid-19 that transcend all global retail markets? The occupier is king. The balance of power between landlord and tenant is a perennially contentious issue, but in times of prosperity, it often lies more with the former.

The pandemic has prompted something of a power swing towards the tenant, with rent deferrals, lease re-gears and a push towards turnover rents increasingly commonplace. A retail asset, or indeed a whole retail market, is only as strong as the occupier base that underpins it.

If nothing else, Covid-19 has provided a timely reminder as to the value of effective landlord/tenant collaboration, rather than counter-productive conflict.

Other takeaways? Greater understanding of online retailing and the fact stores are a fundamental cog in a multi-channel ecosystem.

With stores facing enforced closure in most markets, online was thrust into the spotlight. And in many cases, it was found wanting, with supply chain infrastructure lagging behind very demanding consumer expectations.

Online generally absorbed only a proportion of lost store-based sales. At times during lockdown we saw the realities of an online-only retail world and the harsh limitations that this brings.

Two final thoughts: “Prevention is better than cure”. Those global retail markets furthest down the maturity curve (e.g. the US and the UK) are invariably the most challenged.

Mistakes from the past have well and truly come back to haunt during the COVID-19 pandemic, notably an overzealous development pipeline, a constant drive to maximise rents and above all else, a short-term mindset. Those global retail markets further back on the maturity curve have an opportunity to avoid making the same errors.

And lastly: Complacency has no place in retail. Retail markets are often more resilient than they are given credit for and there surely can be no greater test than a global pandemic. At the same time, retail is constantly evolving and seldom stands still.

Covid-19 has challenged the limitations of complacency in so many ways. Retail is no exception. If there are any positives to be drawn from the pandemic, it is the likely emergence of a leaner, fitter, more resolute and less complacent global retail market.

Rather than support the notion that they are binary, opposing forces, Covid-19 has actually underlined many of the co-dependencies of online and physical retail. Both work best in unison, as opposed to isolation.

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Please get in touch with us:

Marc Du Toit
Head of Retail
marc.dutoit@ug.knightfrank.com

Ashmi Shah
Retail Portfolio Manager
Knight Frank Kenya
ashmi.shah@ke.knightfrank.com

Tim Ware
Managing Director
Knight Frank Zambia
tim.ware@zm.knightfrank.com

Tope Dairo
Associate Partner
Knight Frank Nigeria
tope.dairo@ng.knightfrank.com

David Watson
Director
Knight Frank Botswana
david.watson@bw.knightfrank.com

Patson Mtara
Partner
Knight Frank Zimbabwe
patson.mtara@zw.knightfrank.com

Ahaad Meskiri
Managing Director
Knight Frank Tanzania
ahaad.meskiri@tz.knightfrank.com

Tilda Mwai
Researcher for Africa
tilda.mwai@me.knightfrank.com

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