TRADEHOLD LTD

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Brexit and its impact on UK retail

Many South African investors seem to be concerned about retail in the UK and how that country's decision to leave the EU and the uncertainty it has created, is impacting that industry and the investments made in it. But is there really a direct link to BREXIT or is what we are seeing, more the result of a global seismic shift in the dynamics of retail as we knew it? According to the figures released by the Office for National Statistics, overall sales for the year to June 2018 showed a net increase of close to 3.5%, with volumes growing by 2.5%. The fact of the matter is that consumers are actually spending more. But it is in where they are spending that the difference lies.

The grocery sector has proven the most robust with food sales for the three months to July up 4.5% and 3.1% on a like-for-like basis. The figures for the non-grocery sectors are far less clear. The disparity between sectors is enormous, for the second quarter of 2018, DIY was up 13%, and clothing sales 1.4% whilst footwear was down 7.7%. For the fashion retailers in particular, it is not a question of the right weather, but the right weather at the right time. Non-store retail sales showed strong growth both on a month-by-month and year-on-year basis, rising 4.9% and 16.9% respectively. Online sales reached an all-time high of 18.2% in July.

So, what does this mean? It means people are spending more, but differently. This has nothing to do with BREXIT but with a change in purchasing habits.

There is no doubt that BREXIT, when it does become a reality, will have an effect on the daily lives of the people in the UK. We cannot ignore the inflationary impact of a weaker currency, with imports becoming more expensive. At the same time, interest rates are rising, albeit marginally. So it looks as if people will have less cash in their pockets each month, but then you also have to take wage cost inflation and a labour shortage in the UK into account as the country becomes less open to European workers. Salaries may therefore actually increase, putting more money back into the pockets of the employed.

Customer behaviour

As owners of four shopping centres, our challenge is to create a customer experience that cannot be replicated in the comfort of the living room. What we seem to forget, is that "the customer" is a human being and desires human interaction. This implies that we have to create an environment in our centres that is different from what consumers encounter digitally, an environment which is enticing, immersive and experiential. This does not involve retail only. Leisure spend in the UK has increased by 29% in the past 10 years and quadrupled in the past 30.

Leisure is no longer considered a luxury; eating out is no longer a privilege but an imperative, a necessity. By 2025, Millennials will comprise the majority of the working population. Research has shown that their life drivers are different to those of earlier generations. For them, leisure time is an entitlement, not one to be earned; convenience is a necessity; ownership is less important; and flexibility is paramount.

Today people have access online to every mainstream retailer, almost across the globe. What it does not have access to is individuality, a sense of community and authenticity. People want to experience something different. There is a massive shift in the UK away from the national mainstream to smaller, local, independent specialists across all sectors, and this benefits bricks-and-mortar retail. We can offer those smaller operators a physical presence in a retail environment.

There is today a return to a traditional trading market model that embraces community-driven retail, local produce, local designs and local products. From butchers to furniture designers, from micro-breweries to sandwich shops, consumers want something different. We need to create environments where these businesses can cross-fertilise and flourish, and become part of a community.

London is at the forefront of a new wave of urbanisation that is driving people of all age groups back into city centres. This represents a massive growth opportunity. The young and the old want to be close to infrastructure. They don't want to own expensive cars; they want to walk to the shops and restaurants, cinemas and theatres; and want doctors, dentists, gyms, et al, within easy reach. Why sit in a traffic jam?

Tim Vaughan
Tradehold, Joint CEO

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How are we addressing this change in attitude?
We are constantly broadening the offer in all our retail assets. We are awaiting approval for the creation of more than 700 residential units on these properties which are also providing for doctors' rooms, physiotherapists, cinemas, restaurants and a greater number of independent food and beverage retailers. We have increased our leisure offerings in one of our centres from 5% to 24% since taking ownership of it and want to extend our presence in this sector. Food and drink are proven drivers for footfall. Social interaction is key to pulling our customers away from their screens at home and into our centres.

Not only are we creating places to live adjacent to our centres but also places to work. Our Boutique Workplace Company will be offering exciting and unusual places to work and interact. As research by Harvard University has shown Millennials are more productive in a café environment than in a traditional office, we will be creating environments to suit their needs by providing retail and leisure all under one roof. We are working increasingly to establish communities.

We are also developing hotels alongside our centres to create a truly 24/7 environment. We are partnering with local authorities to embrace, where possible, theatre, teaching and performance art facilities. Retail is becoming almost secondary to the main purpose of the visitor experience. Although the changes in the market are in some ways frightening, it is essential that we embrace them by continuously innovating.

In conclusion
Do we think BREXIT will have an impact on retail? Yes, of course it will. However, of greater significance in our view are the global changes in consumer demands and their effect on the real estate market. We believe we are well placed to embrace the changes in customer behaviour and are already actively creating experiential physical environments to accommodate these.

Ultimately, we are in the entertainment business. Our success is a function of our footfall and our value is a function of our tenants' trading performance. We are no longer just rent collectors, but also service providers as well as data and brand managers. The value of your building will be a function of the experience you create. Now that we are in the service industry, we must look after our guests and create different and enjoyable experiences alongside a sense of community and belonging.

Tradehold sells major asset

As part of our strategy to reduce our exposure to Africa beyond Namibia and South Africa, we've sold our 60% interest in the large corporate residential development known as Cognis in Maputo, Mozambique, to JSE listed property group Grit Real Estate Income Group. For purposes of the sale, the property was valued at US$61.9 million.

Cognis, which offers 18 400m^2 of gross lettable area, was completed almost three years ago at a cost of US$49.7m. The residential units in the complex are let on long-term leases to the American Embassy in Maputo and the American oil-exploration company Anadarko.

New shopping mall opened in Namibia

Gobabis Mall, Namibia

The first phase of the Gobabis Mall providing just under 10 000m^2 of trading space, opened its doors to the public on Thursday, 30 August, and has proved to be an immediate success. Gobabis, which lies in the heart of Namibia's cattle-farming area, is 200 km from Windhoek, and strategically located on the Trans-Kalahari Highway, the main link between the mines in Botswana and the export harbour of Walvis Bay. It is also the conduit for the importation of consumer goods into Namibia from Gauteng.

The launch of the Gobabis Mall follows that of the major Dunes Mall in Walvis Bay about a year ago. The newest initiative is the latest step in Tradehold's long-term plan to strategically locate dominant retail malls in each of Namibia's major towns.

Shoprite, including its LiquorShop outlet that together occupy 3 500m^2, is the anchor tenant. Other prominent tenants include Clicks, Pep, Pep Home and Hungry Lion as well as three banks – Nedbank, Standard Bank and Bank Windhoek. A spokesperson for Shoprite said the first week of trading in the new centre was the most successful in the company's history in Namibia. In this they were joined by both Clicks and Hungry Lion.

The second phase of the Gobabis Mall is expected to start trading in March next year. Among the prime tenants already signed up are OK Furnishers, Bears, Tekkie Town and JB Sports. Work on the project continues within budget. The total cost is expected to be N$137.6m.

Friedrich Esterhuyse, *Tradehold, Joint CEO*