RESEARCH

Knight Frank

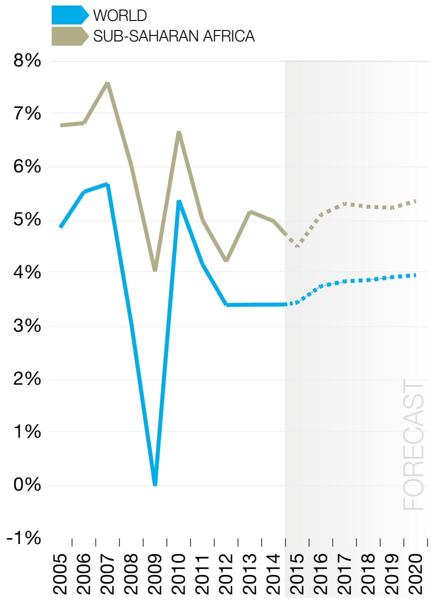
SHOP AFRICA 2016

SUB-SAHARAN SHOPPING CENTRE DEVELOPMENT TRENDS

AFRICA: THE RETAIL OPPORTUNITY

With Africa's property markets attracting increased interest from regional and international investors, the retail sector has become a major focus for development activity.

FIGURE 1
GDP growth rates



Source: International Monetary Fund

Sub-Saharan Africa is experiencing a wave of modern mall development, on the back of the growth of the region's consumer markets. This trend is underpinned by Africa's long-term demographic and economic growth. The population of Africa has more than doubled over the last thirty years to just over 1.1 billion, and it is projected to hit two billion by 2040. Africa's population is growing significantly faster than that of any other global region.

The population of Africa is not only growing, but it is increasingly urban; while a little over 40% of the population currently lives in cities, urban dwellers are projected to be the majority by 2040. Cities such as Kampala, Dar es Salaam and Lusaka are among the fastest growing metropolitan areas in the world. Lagos, now widely recognised as the largest city in Africa, has a population variously estimated at anywhere between 12 and 22 million and the UN forecasts that it will be one of the world's ten largest cities by 2030.

The demographic profile of Africa is young and the middle classes are growing. By the African Development Bank's definition, around 350 million people in Africa are classified as middle class. Within this group, there are brand-conscious, technology-savvy consumers who demand access to the increasingly sophisticated retail formats offered by Africa's new wave of shopping malls.


Acacia Mall, Kampala

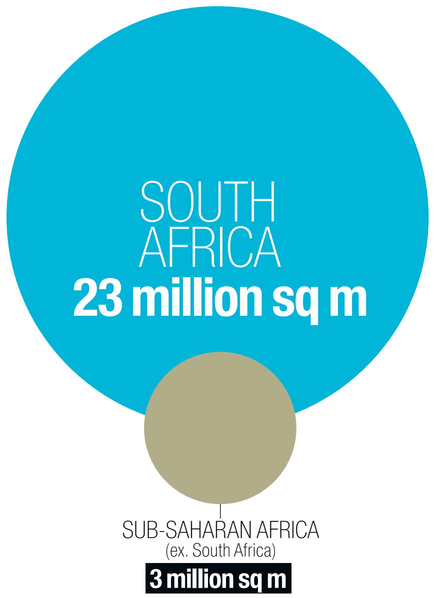
Sizing the market

This report analyses the growth markets of Sub-Saharan Africa and excludes South Africa, which has a large and mature shopping centre market, and the North Africa region. Within the 47 countries covered by this study, Knight Frank Research estimates that there is currently about three million sq m of existing shopping centre space, in malls with a minimum size of 5,000 sq m GLA.

This includes older and poorer quality centres alongside more recently developed malls.

Given that South Africa alone is estimated to have about 23 million sq m of shopping centre space, more than seven times as much as the rest of Sub-Saharan Africa, there would appear to be room for considerable further retail development across the region. At present, the largest shopping centre market in the area covered by this report is Nairobi, with nearly 400,000 sq m of shopping centre space. However, it is significant that the second and third largest markets by floor space are Windhoek and Gaborone, two small capital cities in Southern Africa, albeit in relatively mature and prosperous economies. The fact that megacities such as Lagos and Kinshasa have less floor space than these two cities, which are a fraction of their size, illustrates how much further their retail markets have to grow.

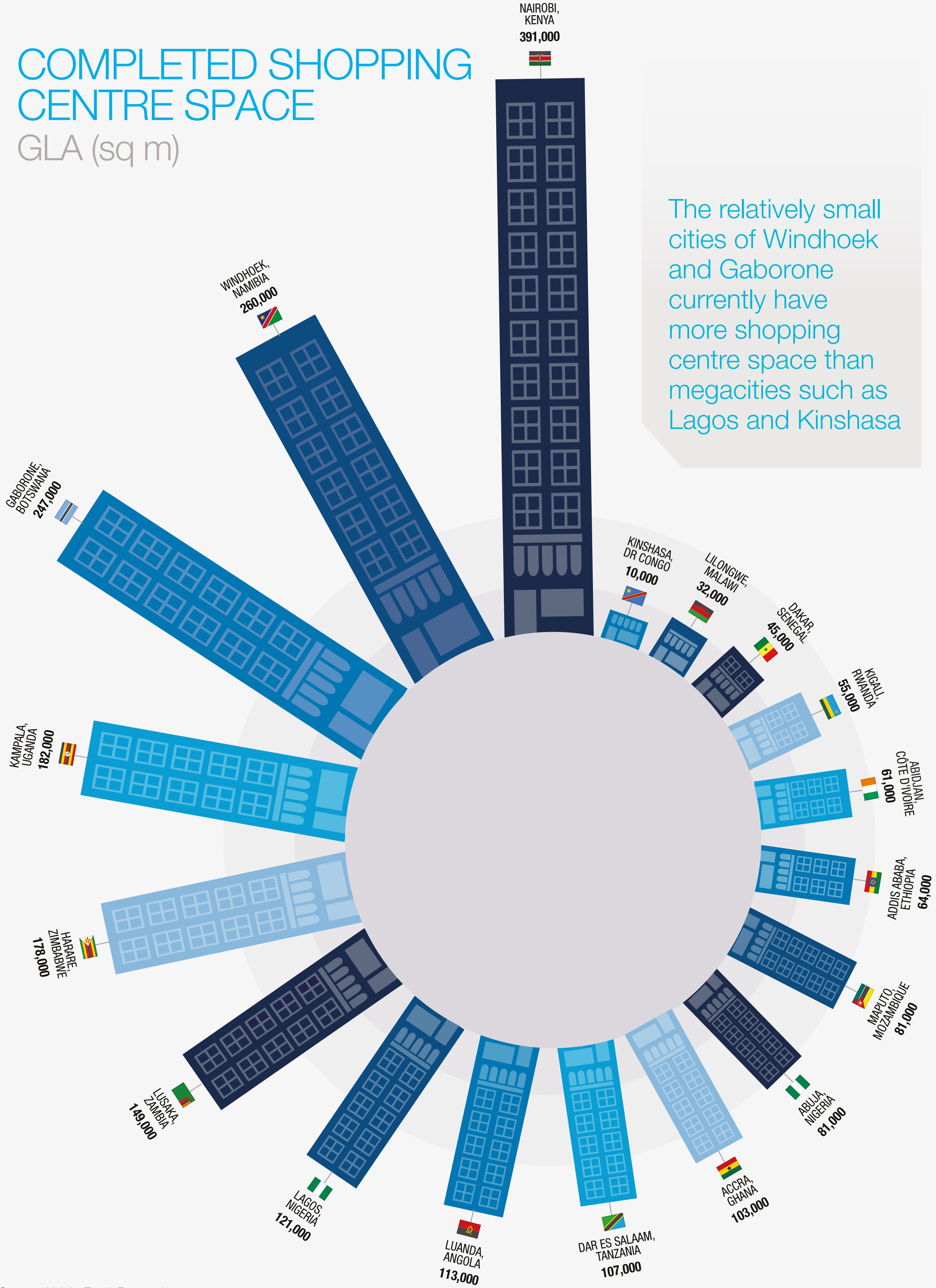
FIGURE 2
Shopping centre floor space
Million sq m



Sources: Knight Frank Research/South African Council of Shopping Centres

COMPLETED SHOPPING CENTRE SPACE

GLA (sq m)



The relatively small cities of Windhoek and Gaborone currently have more shopping centre space than megacities such as Lagos and Kinshasa

Source: Knight Frank Research
Floor space estimates include formal shopping centres with multiple retail units and a minimum gross leasable area (GLA) of 5,000 sq m.

SHOPPING CENTRE MARKET GROWTH

Over recent years, the shopping centre concept has spread throughout an increasingly wide range of Sub-Saharan cities.

Modern shopping centres are a relatively new phenomenon in much of Africa. In a number of major markets, modern malls have only really started to appear over the last decade; Accra Mall (20,000 sq m), for example, generally regarded as the first modern mall in Ghana's capital, opened in 2008. Its success has encouraged further development; West Hills Mall (27,000 sq m) opened in Accra in 2014 and extensions to both malls are now in progress.

Developers have also turned their attention to Ghana's second city, Kumasi, where pipeline schemes include Kumasi City Mall (29,000 sq m) and Garden City Mall (22,000 sq m). The trend towards development in second-tier cities is evident in a number of other countries, as developers have sought to gain first-mover advantage in locations without existing modern malls. Most notably, there are numerous projects currently under construction in second-tier Nigerian cities such as Onitsha, Benin City and Abeokuta.

Within Sub-Saharan cities where the shopping centre concept has already taken root, the trend is towards the development of bigger and higher quality malls. This is exemplified by Nairobi; already the largest market in the region by floor space, it has seen its retail offer continue to grow and improve. New developments opened in 2015 included Garden City Mall (first phase, 33,000 sq m), while Two Rivers Mall (62,000 sq m) is nearing completion. Both are bigger than any existing retail schemes in Nairobi and form part of major mixed-use developments.

Development hotspots

Knight Frank's research has identified Nairobi, Luanda, Lagos, Dar es Salaam and Maputo as the cities with the five largest shopping centre development pipelines in Sub-Saharan Africa, excluding South Africa. All of these cities fit the profile currently targeted by investors in Africa, as large, fast growing cities in economies that have seen rapid recent expansion.

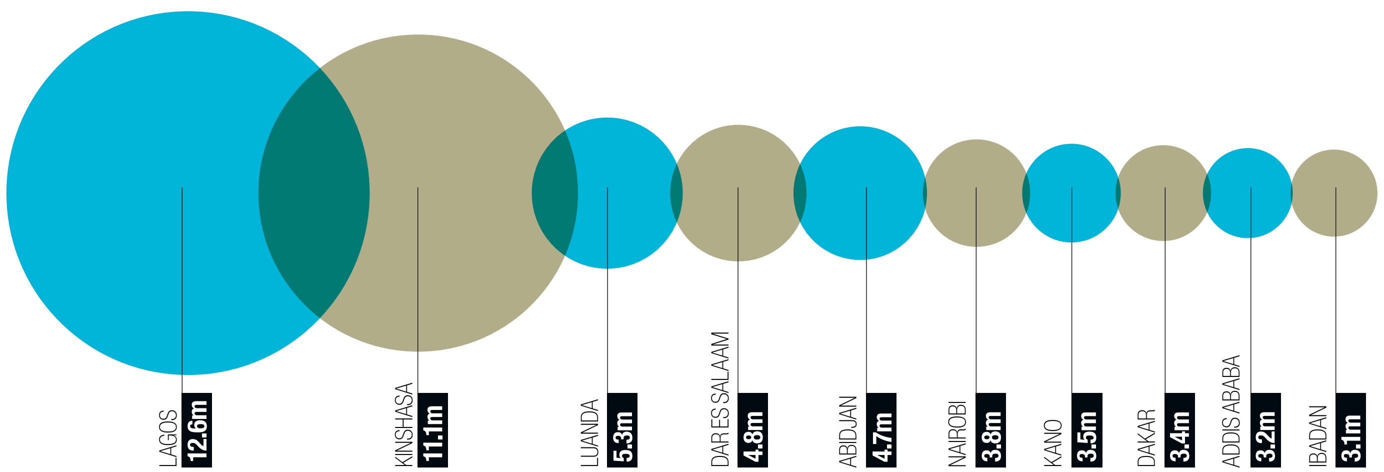
Nairobi has around 470,000 sq m of shopping centre space in the pipeline, while Luanda has more than 350,000 sq m, albeit this figure includes several long-standing large-scale projects that have seen significant delays to their construction. Lagos has the third largest pipeline, but retail development is also spread out across the many other large cities of Nigeria and, at a national level, the country's pipeline is the largest in the region.

Completing the top five hotspots are Dar es Salaam, where shopping centre development is currently accelerating having previously lagged Nairobi, its main regional rival in East Africa; and Maputo, where retail development has grown as part of a construction boom that has been largely driven by recent offshore gas discoveries.

Not all major cities are seeing such high levels of development. To date, there has been relatively limited activity in the capitals of Francophone West Africa, such as Abidjan and Dakar. However, a huge new shopping centre project, potentially the largest in Sub-Saharan Africa outside South Africa, has been announced for Dakar by the Hong Kong-headquartered investor Hermes-Sojitz. Kinshasa, the second most populous city in Sub-Saharan Africa, continues to see minimal modern development, while Addis Ababa, a market with huge retail potential in one of Africa's fastest growing economies, has seen modern mall development held back partly as a result of restrictions on foreign retailers entering the country.

FIGURE 3

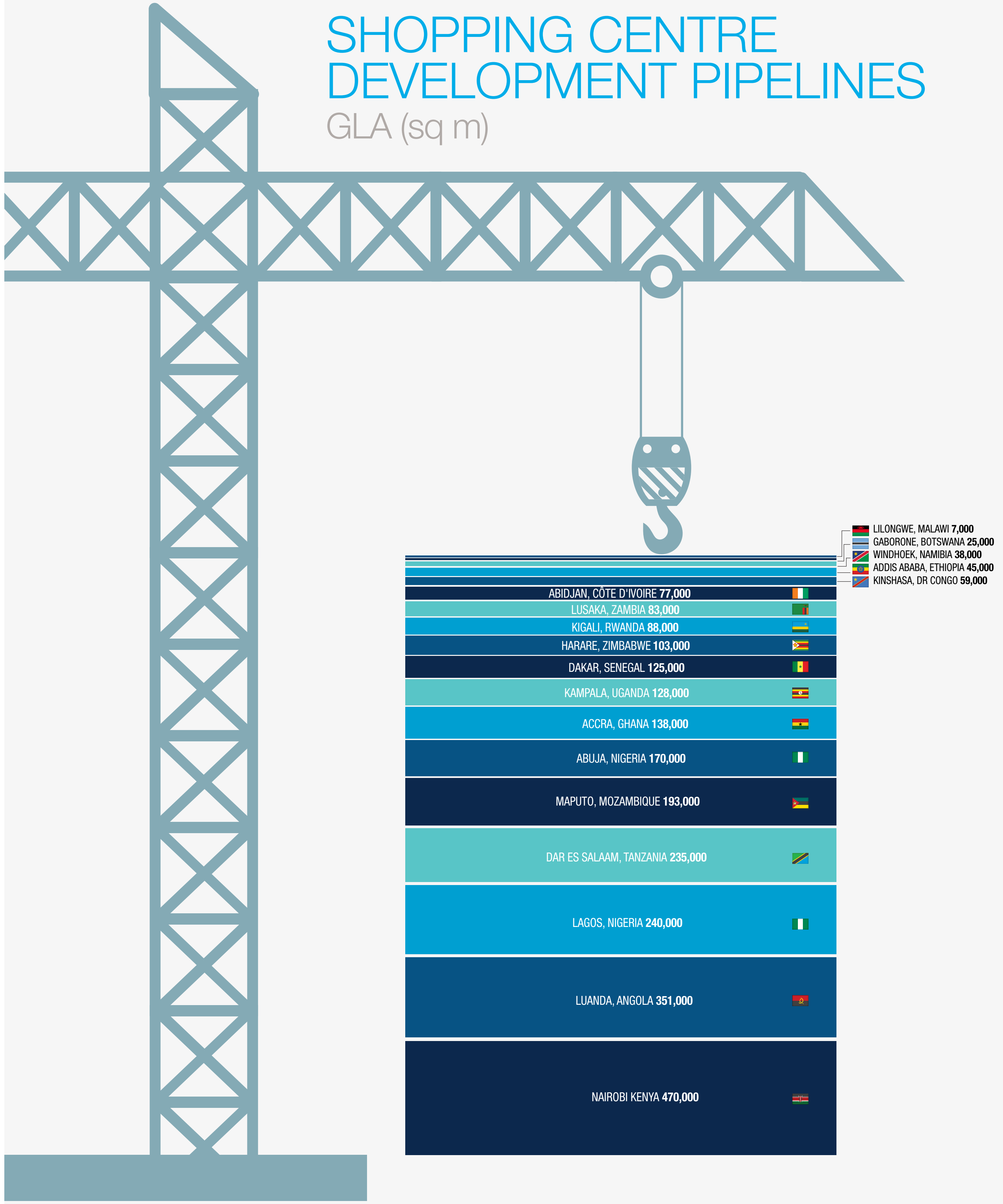
Ten largest cities in Sub-Saharan Africa* Population (millions)



Source: United Nations Population Division, 2014 estimates *Excluding South Africa

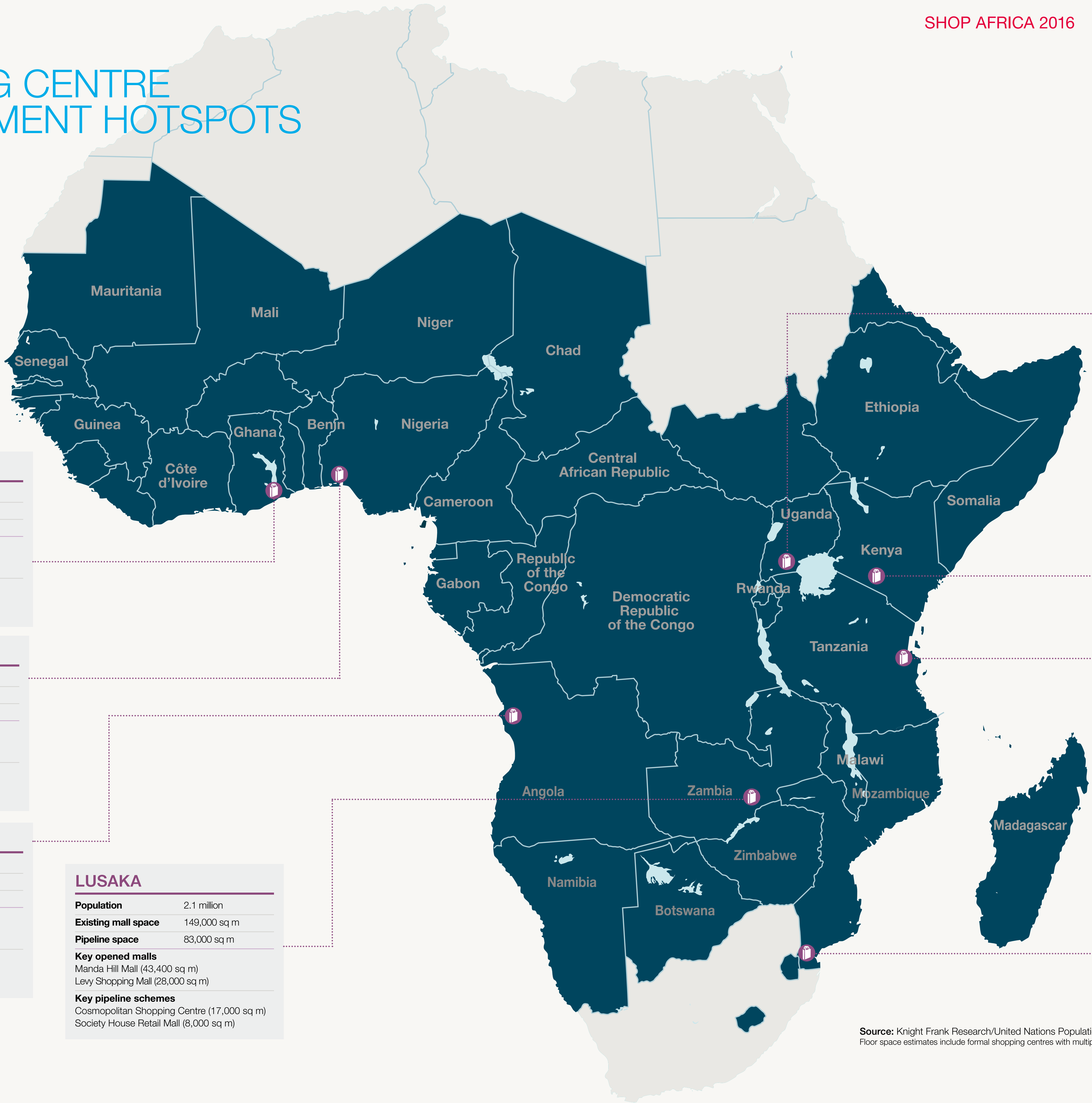
SHOPPING CENTRE DEVELOPMENT PIPELINES

GLA (sq m)



Source: Knight Frank Research
Floor space estimates include formal shopping centres with multiple retail units and a minimum gross leasable area (GLA) of 5,000 sq m.

SHOPPING CENTRE DEVELOPMENT HOTSPOTS



ACCRA

Population	2.2 million
Existing mall space	103,000 sq m
Pipeline space	138,000 sq m

Key opened malls
West Hills Mall (27,000 sq m)
Accra Mall (20,000 sq m)

Key pipeline schemes
Mallam Junction Mall (21,800 sq m)
Meridian City Mall (20,000 sq m)

LAGOS

Population	12.6 million
Existing mall space	121,000 sq m
Pipeline space	240,000 sq m

Key opened malls
Ikeja City Mall (22,650 sq m)
Palms Mall (20,500 sq m)

Key pipeline schemes
Royal Gardens Mall (30,124 sq m)
Novare Lekki (22,000 sq m)

LUANDA

Population	5.3 million
Existing mall space	113,000 sq m
Pipeline space	351,000 sq m

Key opened malls
Ginga Shopping (20,000 sq m)
Belas Shopping Centre (17,000 sq m)

Key pipeline schemes
Mundial Shopping (56,000 sq m)
Muxima Shopping Centre (25,943 sq m)

LUSAKA

Population	2.1 million
Existing mall space	149,000 sq m
Pipeline space	83,000 sq m

Key opened malls
Manda Hill Mall (43,400 sq m)
Levy Shopping Mall (28,000 sq m)

Key pipeline schemes
Cosmopolitan Shopping Centre (17,000 sq m)
Society House Retail Mall (8,000 sq m)

KAMPALA

Population	1.9 million
Existing mall space	182,000 sq m
Pipeline space	128,000 sq m

Key opened malls
Garden City Shopping Mall (25,000 sq m)
Acacia Mall (16,316 sq m)

Key pipeline schemes
Kingdom Kampala Mall (42,000 sq m)
Pearl Marina Estate Shopping Arcade (20,000 sq m)

NAIROBI

Population	3.8 million
Existing mall space	391,000 sq m
Pipeline space	470,000 sq m

Key opened malls
Garden City Mall (33,000 sq m, phase one)
The Junction (26,000 sq m)

Key pipeline schemes
Two Rivers Mall (62,000 sq m)
The Hub (30,000 sq m)

DAR ES SALAAM

Population	4.8 million
Existing mall space	107,000 sq m
Pipeline space	235,000 sq m

Key opened malls
Quality Center Mall (25,000 sq m)
Mlimani City (18,000 sq m)

Key pipeline schemes
Peninsula Plaza (31,000 sq m)
Mkuki House Mall (22,000 sq m)

MAPUTO

Population	1.2 million
Existing mall space	81,000 sq m
Pipeline space	193,000 sq m

Key opened malls
Maputo Shopping Centre (10,000 sq m)
Marés Shopping Centre (9,000 sq m)

Key pipeline schemes
Mall de Moçambique (63,000 sq m)
Bay City Mall (28,000 sq m)

Source: Knight Frank Research/United Nations Population Division
Floor space estimates include formal shopping centres with multiple retail units and a minimum gross leasable area (GLA) of 5,000 sq m.

KEY MARKET PLAYERS

A range of local, regional and international operators are driving retail market activity across Africa.

Retailers

The newly developed malls of Sub-Saharan Africa are absorbing demand from a variety of retailers seeking to expand their footprint in the region. South African retailers such as Shoprite, Pick n Pay, Game and Woolworths are particularly prominent, anchoring many of the most modern malls.

Other growing regional retailers include the Kenyan supermarket operators Nakumatt and Uchumi which have been opening stores throughout East Africa, while Botswana's Choppies chain is on an expansion drive in Southern and East Africa.

International retailers targeting Africa have most commonly entered the continent via North African countries such as Morocco and Egypt, or South Africa. However, there is now growing interest in the wider Sub-Saharan region from major international retail groups.

The French supermarket chain Carrefour has made inroads in Francophone Africa and is also poised to enter the Kenyan market in 2016. Wal-Mart has made progress in Africa via its acquisition in 2012 of a majority stake in Massmart, which operates brands such as Game in Africa.

Other international brands are present in the region's premier malls; for example, there are Hugo Boss, Levi's and Lacoste stores at the Palms Mall in Lagos, while Mango, Aldo and Benetton are at the Sea Plaza in Dakar. Most international brands enter the region through partnerships with local operators or franchise agreements.

Investors and developers

The key developers behind Africa's most modern new malls include Actis, the pioneering UK investor which has been active in Africa since launching its first Africa Real Estate Fund in 2006. Current Actis projects include Jabi Lake Mall (27,000 sq m), which will be the largest mall in Nigeria's capital Abuja.

Development activity is also being driven by the growing number of South African investors targeting the rest of the continent. These include RMB Westport, whose development projects include Royal Gardens Mall (30,124 sq m) in Lagos and Muxima Shopping Centre (25,961 sq m) in Luanda; AttAfrica, which has interests in Manda Hill Mall (43,400 sq m) in Lusaka, as well as existing and pipeline schemes in Ghana; and Resilient, which has targeted second-tier Nigerian cities.

Along with local players such as Kenya's Centum and Nigeria's Persianas Group, these developers are in the process of creating a stock of high quality investable shopping centre assets throughout Sub-Saharan Africa.

South African investors have also been actively acquiring existing malls throughout the region, notably Ikeja City Mall in Lagos, which changed hands in November 2015. The mall was sold by Actis, RMB Westport and Paragon to Hyprop and Attacq, two South African funds, in a deal reportedly worth c. US$91 million.

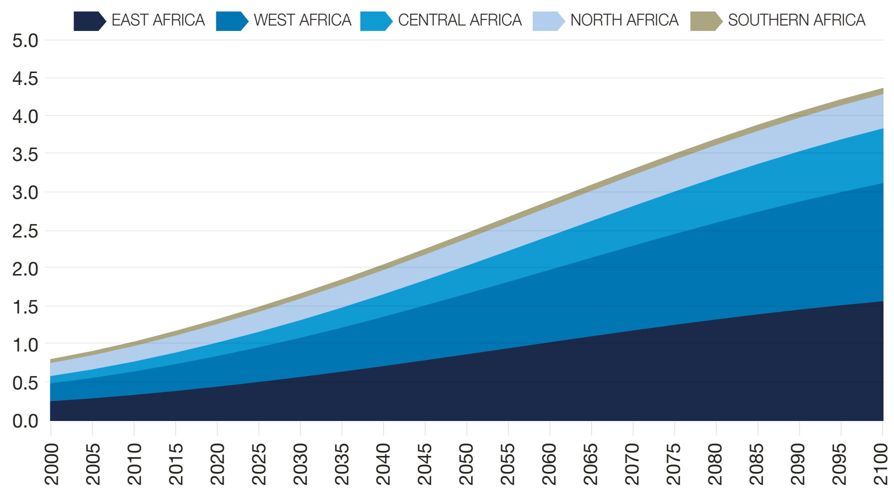
OUTLOOK

The shopping centre sector currently provides many of the most eye-catching examples of commercial property development in Sub-Saharan Africa. Even though retail construction activity has accelerated, nearly all of the region's major cities remain extremely undersupplied by international standards, and development is set to continue apace.

As the sector grows and competition between retail schemes intensifies, developers will increasingly look for opportunities outside of the current hotspots and turn their attention to second and third tier cities. Within the cities that are already major focal points for retail activity, such as Nairobi and Lagos, selecting the right micro locations for development will become increasingly crucial to the success of new schemes. Developers may need to differentiate their malls from the competition by offering access to international brands, leisure facilities and upscale consumer experiences.

Over the long term, shopping centre development will go hand in hand with Africa's increased urbanisation and its economic growth. It will play a major role in shaping the future landscapes of Sub-Saharan African cities.

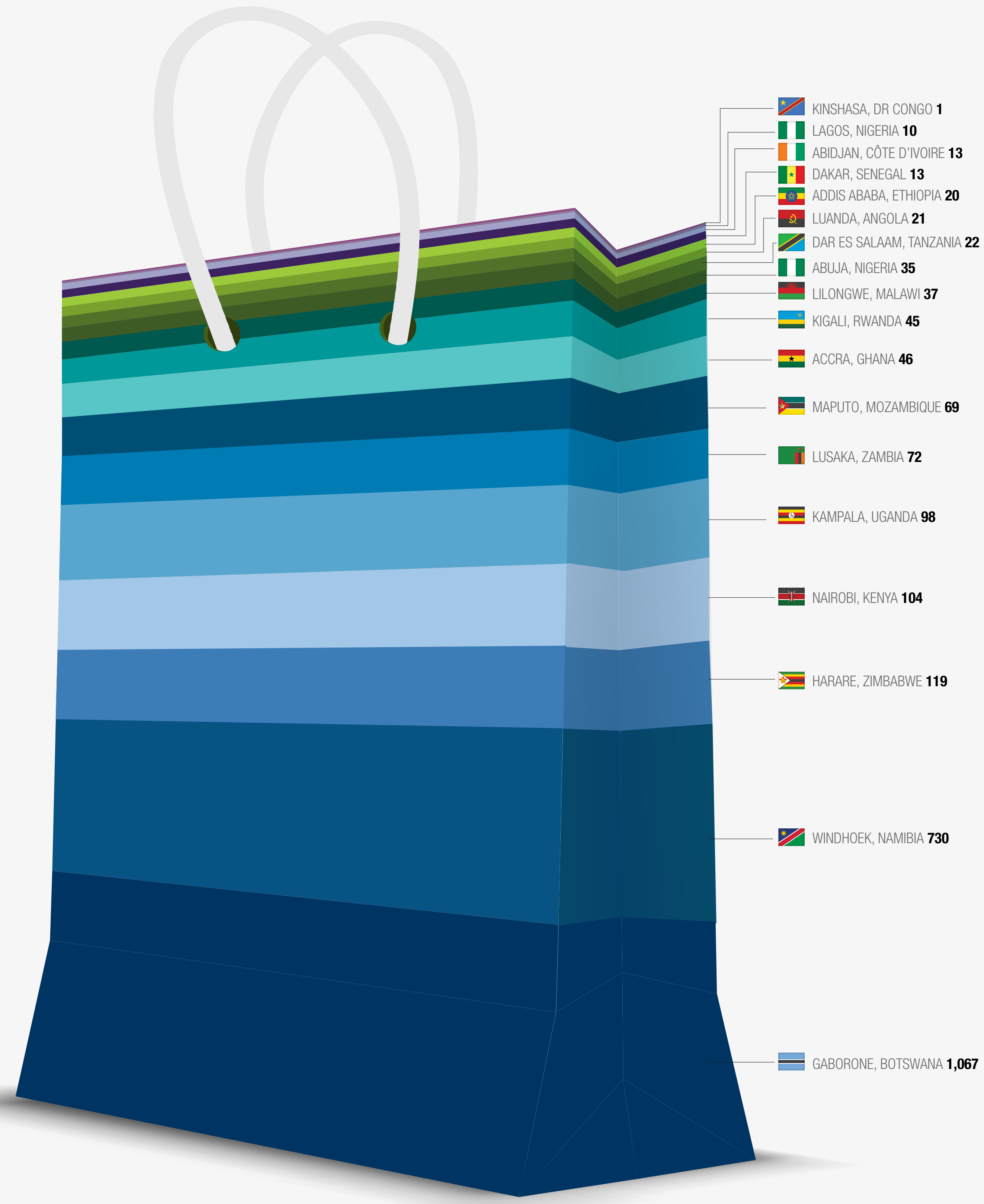
FIGURE 4
Africa population forecasts (billions)



Source: United Nations Population Division

SHOPPING CENTRE SPACE PER 1,000 PEOPLE

GLA (sq m)/1,000 people



Source: Knight Frank Research/United Nations Population Division
Floor space estimates include formal shopping centres with multiple retail units and a minimum gross leasable area (GLA) of 5,000 sq m.

RETAIL SPOTLIGHT: NAIROBI

The Kenyan capital Nairobi leads shopping centre development in Sub-Saharan Africa.

Among the cities covered by this report, Nairobi stands out as a major focus for shopping centre development. It is ranked as the largest market by existing shopping centre floor space and it has the biggest development pipeline.

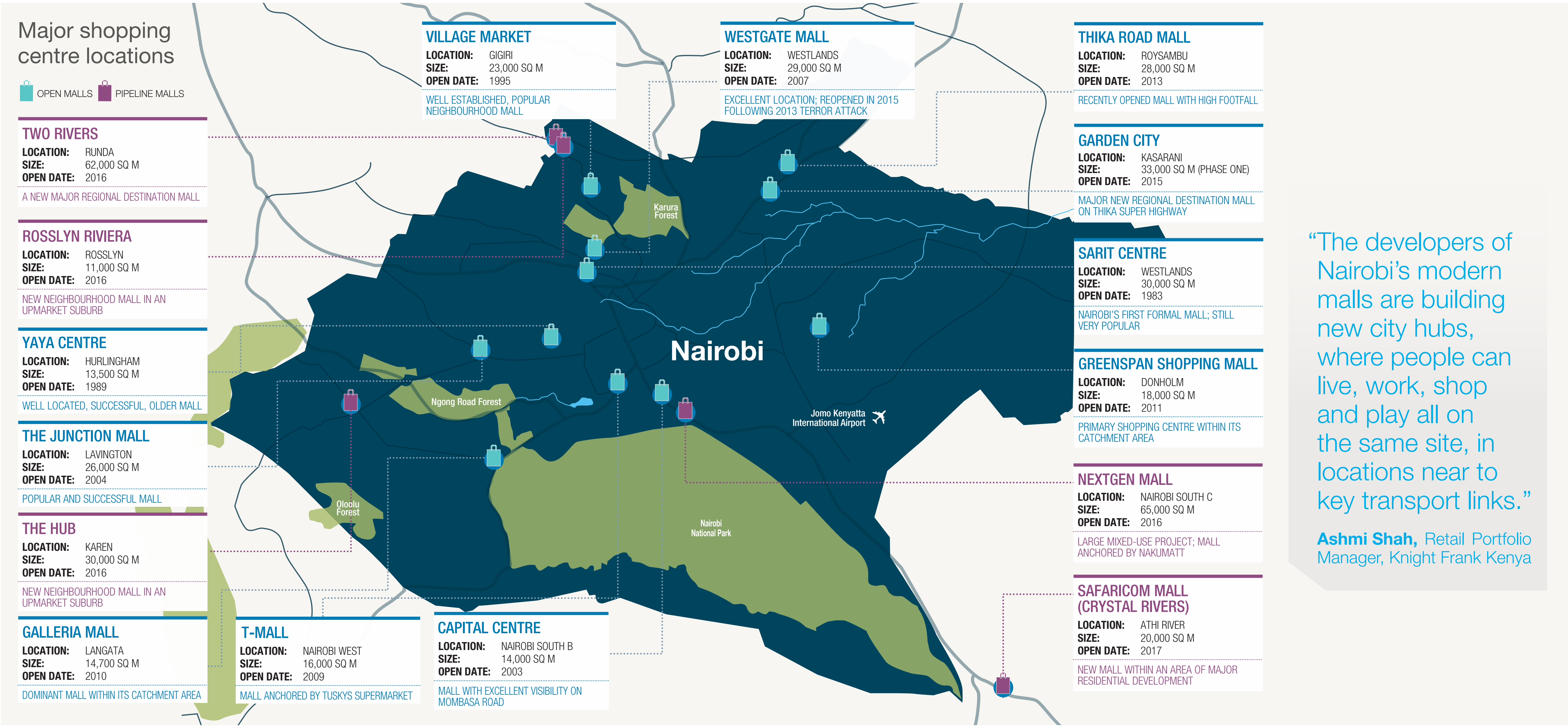
Shopping centres have been a feature of Nairobi since the 1980s when the Sarit Centre, regarded as the city's first formal mall, opened. Over the following decades, Nairobi's retail landscape has been populated by other successful schemes such as Yaya Centre, Village Market and The Junction. However, the current wave of development is creating modern malls that are setting new standards for size and quality within the market.

The most prominent shopping centre opening in 2015 was the first phase of Garden City Mall, comprising 33,000 sq m GLA. This is part of a large-scale mixed-use project developed by Actis, which also includes residential, office and hotel elements. It is planned to be fully completed in 2017, when the mall will be expanded to 50,000 sq m.

The development pipeline includes Centum's keenly awaited Two Rivers project, which is expected to open in 2016. A 62,000 sq m mall will be delivered as part of the first phase of this major mixed-use scheme being built on a 100 acre site. Another key project set to open in 2016 is The Hub in Karen, one of Nairobi's wealthiest neighbourhoods, which will offer 30,000 sq m of retail space and is being developed by Azalea Holdings, a consortium of local investors.

Nairobi's newest malls have leased well and the rents that they have achieved compare favourably with the city's more established centres. Among the new projects, there is a clear trend towards mixed-use, rather than pure retail, development as office, residential and leisure facilities have been incorporated into schemes.

Aside from Actis, most of the developers and landlords of Nairobi's shopping centres are local Kenyan property owners. However, reflecting a trend seen elsewhere in Africa, there is growing interest in the market from South African investors, and Stanlib



is understood to be poised to acquire Greenspan Mall in Donholm Estate.

The Kenyan retail market remains dominated by local operators, despite growing interest from international chains. The market leader is Nakumatt, which has more than 20 supermarkets in Nairobi, while other major players include Tuskys, Naivas and Uchumi. Largely due to the strength of the local competition, South African chains have been relatively slow to enter the Kenyan market in comparison with some other Sub-Saharan countries. However, Game, operated by South Africa's Massmart, made its Kenyan debut in 2015 as one of the anchor stores at Garden City Mall.

Retailers from outside of Africa are taking a growing interest in Kenya, and the most high profile imminent market entrant is the French supermarket chain Carrefour, which will be an anchor tenant at both Two Rivers and The Hub. The Turkish fashion retailer LC Waikiki will also be entering the Kenyan market by opening a store at Two Rivers.

Other international retailers are known to be considering entering Kenya but the difficulty of sourcing appropriate local partners is regularly cited as a major obstacle to market entry. There are only a small number of local firms with the expertise to partner with international retailers, with the most prominent being Deacons, which operates brands such as Adidas, Mr Price and Bossini in Kenya. Security concerns and the recent volatility of currency markets have also contributed to a number of international retailers' decisions to put their market entry on hold.

In the face of increased competition from Nairobi's new malls, some of the city's established centres are in the process of expanding or refurbishing as they seek to protect their market share. These include the Sarit Centre, where there are plans for an additional 23,000 sq m of retail space.

Despite the high levels of recent construction activity, there are still opportunities for the development of well-located, well-positioned malls across Nairobi. Several neighbourhoods remain undersupplied for shopping centre space and retail demand will continue to be driven by the growth of Nairobi's consumer classes.

> "The developers of Nairobi's modern malls are building new city hubs, where people can live, work, shop and play all on the same site, in locations near to key transport links."
>
> **Ashmi Shah,** Retail Portfolio Manager, Knight Frank Kenya


Garden City Mall

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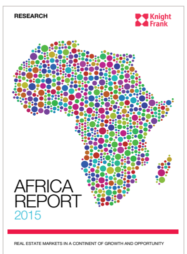

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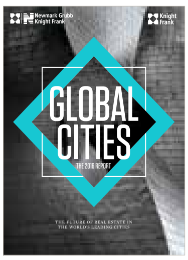

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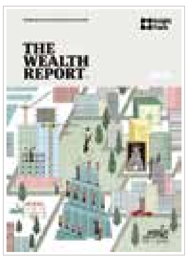

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