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RETAIL SNAPSHOT Q3: 2018

Fast-Food Overview

Burgers, Chicken,
Pizza, Pies and more.
What do South Africans prefer?

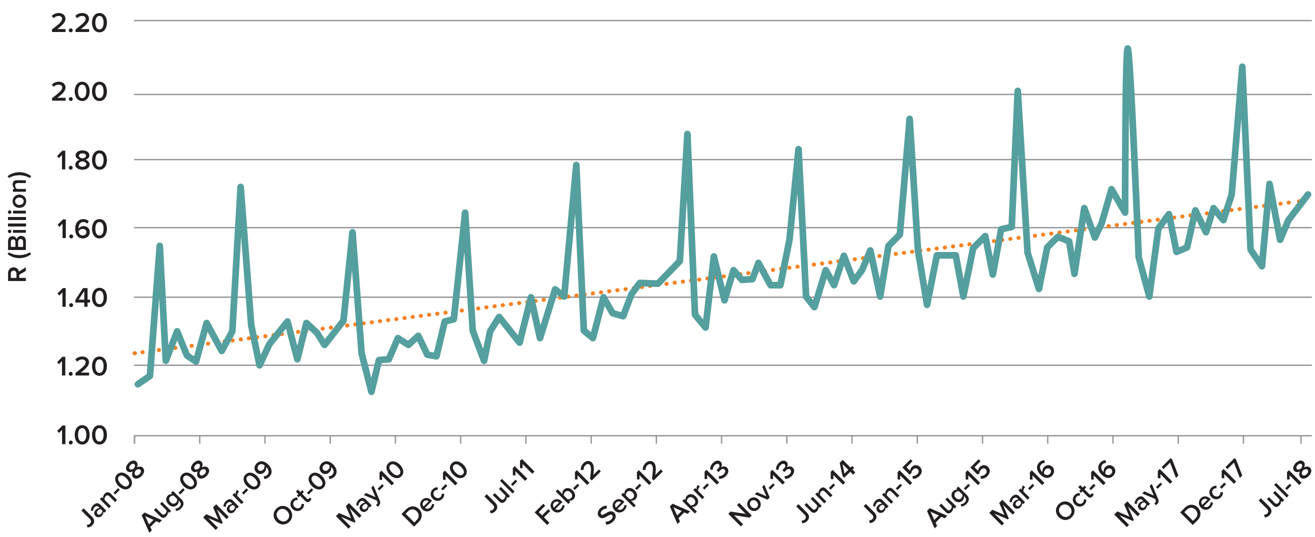
The Fast-Food Industry

National Statistics

According to Stats SA, in the first seven months of 2018, the Food and Beverage industry experienced the highest year-on-year (y-o-y) growth in real terms (constant 2015 prices) of 7.2% in June. More recently, in July, this growth slowed to 0.1%, with food sales in particular recording a growth of 0.6%, while bar sales declined by 6.7% and other income declined by 6.1%. Takeaway and Fast-Food outlets experienced the highest y-o-y growth, achieving a growth of 2.8%, whereas restaurants and coffee shops declined by 1.6% and catering services by -0.6%.

Takeaway and Fast-Food outlets, in particular, have been recording a positive trend line since January 2008 with regards to total income recorded (inclusive of food, bar and other sales). As at July 2018, a total income of R1.69 billion (constant 2015 prices) was evident for the sector overall. This was the second highest figure recorded over the first seven months of 2018, with March being the highest (R1.73 billion). The highest income recorded over this almost 10-year period, was R2.11 billion as at December 2016, while the lowest figure was R1.12 billion as at February 2010.

Total Income: Takeaway and Fast-Food Outlets

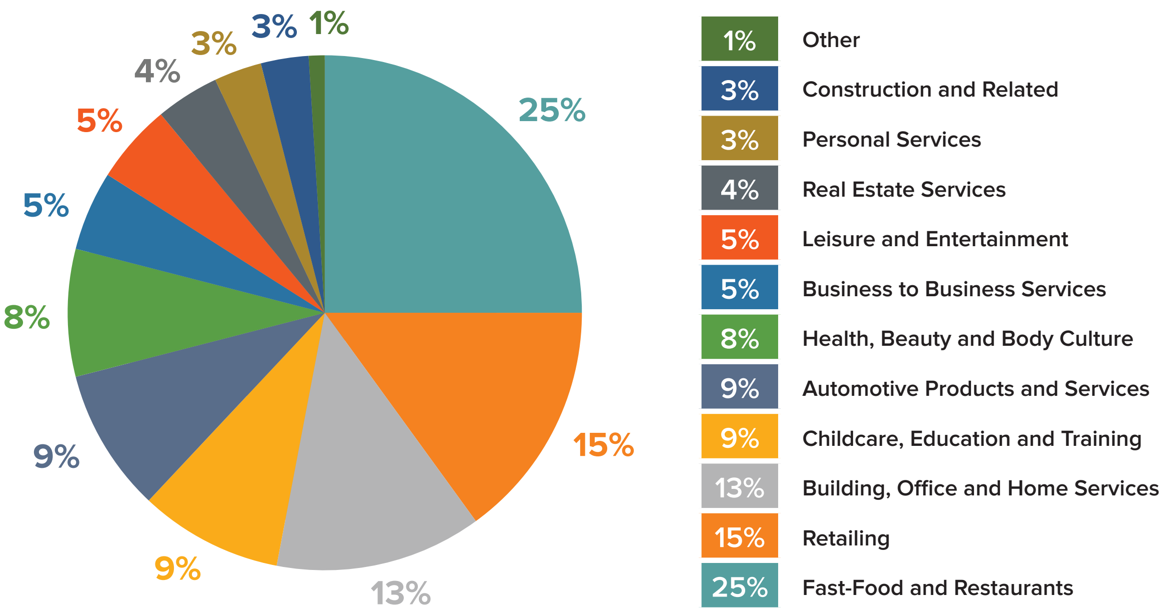


Source: Stats SA

The Franchise Industry

The Franchise Association of South Africa is largely made up of Fast-Food and Restaurants, accounting for 25% of the total categories making up the franchising industry. Furthermore, the Fast-Food and Restaurant sector contributed the most (29%) to the industry's turnover of R587 billion in 2017, showcasing its importance and prominence. In the South African retail landscape, the majority of Fast-Food retailers are franchisees, with some of the key players in the industry being franchisors such as Yum! Brands, Taste Holdings and Famous Brands.

Franchise Industry Categories



Source: FASA

South African Fast-Food Retailers

The South African Fast-Food industry is a broad one, with some of the biggest industry role-players (by number of stores) including the likes of KFC, Steers, Debonairs, Nando's, McDonalds, Chicken Licken and Fishaways, to name but a few. While some international brands have had a presence within the country for a number of years, over recent years, a number of new brands have entered the South African Fast-Food market, including but not limited to, Burger King, Pizza Hut (re-entering) and Domino's, thus expanding the offering to consumers, as well retailer competition. Drive-thru's have also contributed to this, with an increasing number of drive-thru's having become evident over recent years. Moreover, some retailers have indicated that their drive-thru locations achieve higher revenue in comparison to their stores within shopping centres, and tend to be more resilient in tough times. With South Africa currently facing a technical recession, increased drive-thru's may become more evident.

Growing Fast-Food Deliveries

Fast-food deliveries have now become the norm, with the likes of Mr D Food, UberEATS and OrderIn being the industry's key role players. Mr D Food and UberEATS are said to have 90% market share when it comes to the fast-food delivery market. In addition, gone are the days where you had to wait for a delivery menu to arrive in the post and phone through your order via a delivery service. Mobile apps and online systems now allow for fast and effective order placing, without having to spell out your name, surname and street address countless times.

Over the last year, Mr D Food has experienced a 210% growth with regards to the number of orders. This, in addition to having recorded over 1 million app downloads, 270,000 active users per month, and having processed in excess of R500 million worth in orders.

While, late 2018, it was indicated that UberEATS was estimated to have more than one million users since its South African launch in 2016, and offers in excess of 50,000 meal options across more than 2,000 restaurants.

With regards to UberEATS, it was revealed that over the last year, the top five ordered food items were:

- Fried Chicken
- Noodles
- Cheeseburgers
- Wraps
- Margarita Pizza

Are the same trends evident within brick and mortar stores, specifically within Broll-managed shopping centres? This snapshot will endeavour to determine which type of fast-food retailer performs the best under varying parameters.

Fast-Food in our Shopping Centres

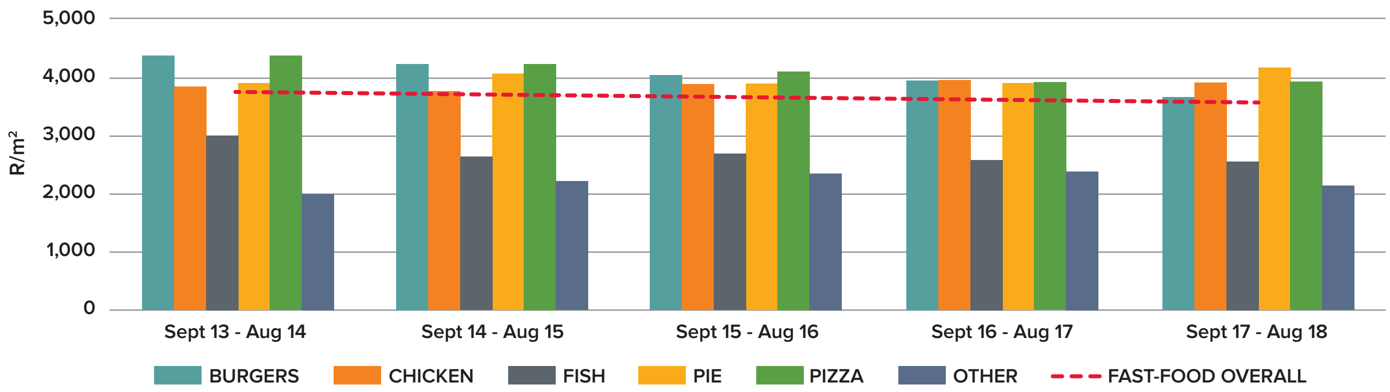
A study, taken over a five year period[1], investigated the average trading densities (TD) of a wide range of fast-food retailers across various shopping centre types, so as to determine which fast-food category performs best.

When looking at shopping centres across the board, average TD for fast-food overall has been experiencing a slightly negative trend, declining by -5.2% between year 1 and year 5, with TD decreasing from R3,764/m^2 to R3,564/m^2 respectively. This may be attributed to the increased financial pressure which consumers are under due to increasing price hikes, as indicated in **Broll's Q2 Retail Snapshot**, thus cautious spending has become the norm.

Most of the fast-food categories tend to achieve above average TD when looking at the market average for fast-food overall, barring Fish and Other retailers which achieve below this. When looking at each year individually, Pizza was the best performing fast-food category for years 1, 2 and 3, while in year 4, Burgers took the top spot, followed by Pies in year 5. This may be indicative of the tough times consumers are finding themselves under, thus the more affordable nature of the Pies category has become more favourable.

[1]*Average TD per year have been adjusted for inflation*

Average Category Performance over a 5 year Period

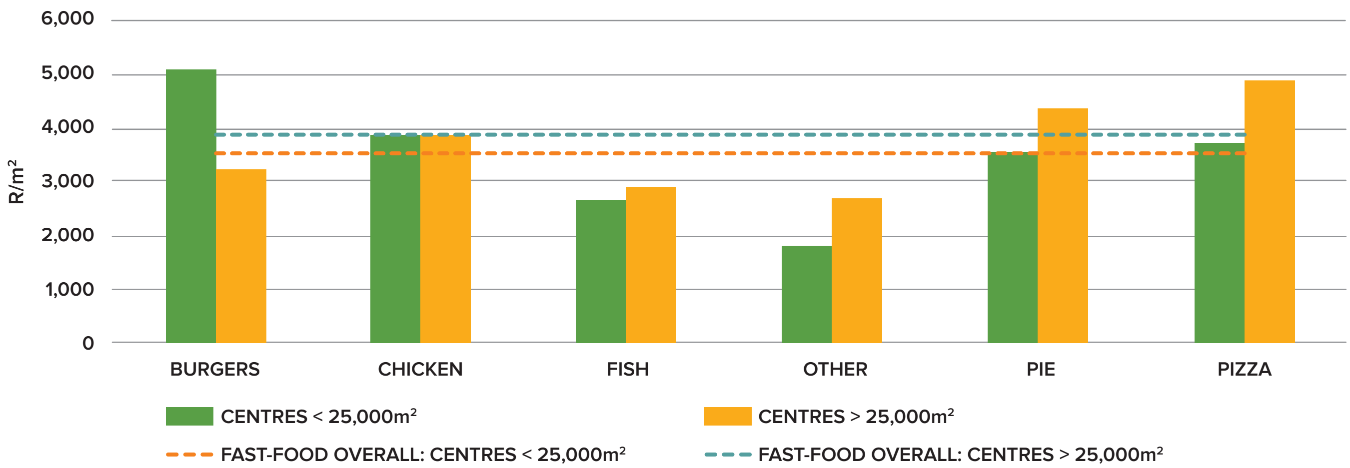


Source: Broll Database

Performance by Centre Type

Fast-food tends to perform better in larger-sized centres, with centres measuring over 25,000m² recording an average TD of R3,883/m² for fast-food overall, while centres below 25,000m² average R3,519/m². When focusing on fast-food categories, in centres measuring <25,000m², the top three performing categories were Burgers (R5,081/m²), Chicken (R3,857/m²) and Pizza (R3,686/m²). In centres >25,000m², Pizza was the best performing (R4,882/m²), followed by Pies (R4,345/m²) and Chicken (R3,860/m²).

Average Category Performance over a 5 Year Period by Centre Type



Source: Broll Database

Performance by Location

In outer-lying areas across the country, Pies, Pizza and Chicken are the best-sellers, with all other categories falling below the average for fast-food overall. While within main cities, Burgers come out on top, with a TD of R4,242/m², followed by Pizza and Chicken. Fast-food overall within main cities records a higher TD in comparison to outer-lying areas: R3,747/m² versus R3,529/m² respectively.

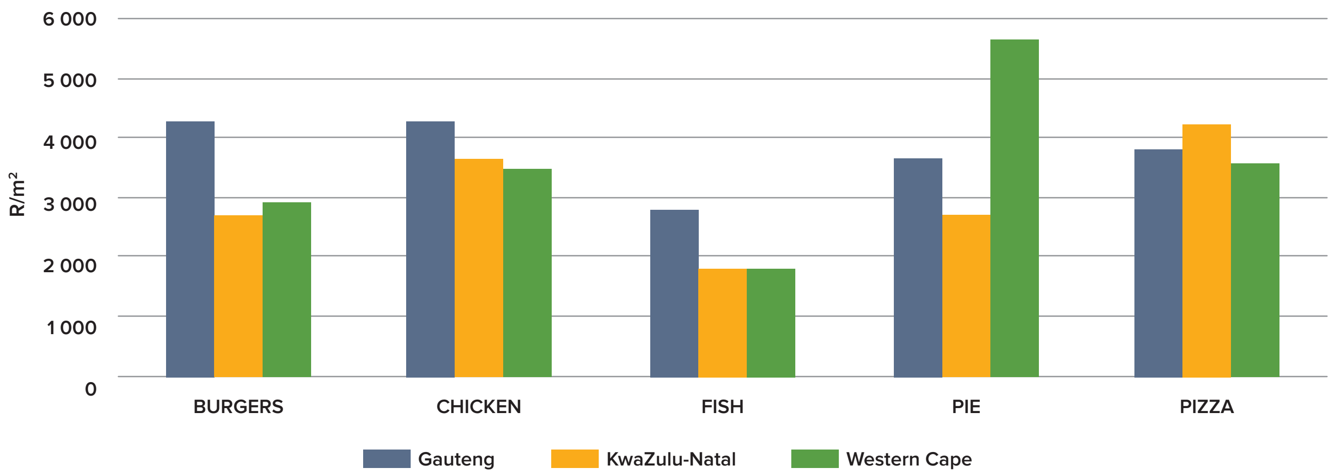
Average Category Performance over a 5 Year Period by Location

Note: "Other" is a 4 year average

Source: Broll Database

When focussing on the fast-food categories across South Africa's 3 major provinces, i.e. Gauteng, KwaZulu-Natal and the Western Cape, Gauteng is the top achiever across most categories with regards to average TD for a 12 month period to August 2018. However, when it comes to Pies, the Western Cape outperforms its counterparts, while Pizza is favoured in KwaZulu-Natal.

Average TD for 2018 – Major Provinces

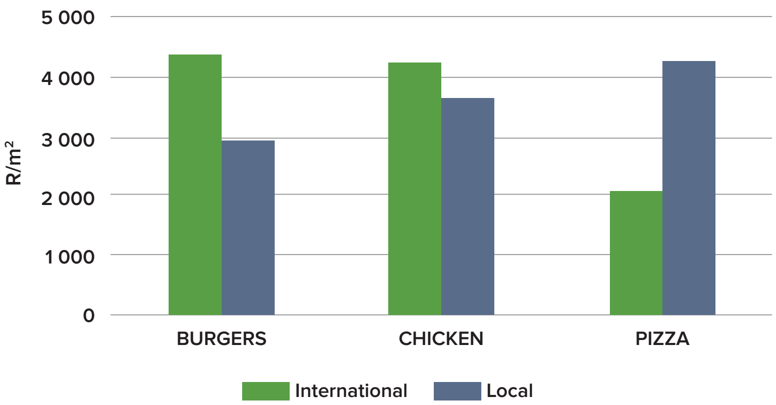


Source: Broll Database

International vs Local

While some international fast-food retailers have been present within SA for a number of years, recent times have seen new retailers entering the market, mostly in the Burger, Chicken and Pizza categories. International retailers outperform their local counter-parts when it comes to Burgers and Chicken, however local retailers seem to perform better when it comes to Pizza.

Average TD over a 5 year period: International vs Local



**Pizza is a 4 year average*

Source: Broll Database

Concluding Remarks

On a country-wide level, total income for Takeaway and Fast-food outlets has been experiencing an increasing trend. However, when looking at a select sample size of specific retailers, across varying centre types, decreasing TD are evident. This demonstrates that it is not only consumers that are under pressure, but retailers are feeling the pinch too.

Over a 5 year period, most fast-food categories achieved TD in line with or above the market average, barring Fish and Other. Additionally, during years 1, 2 and 3, Pizza was the top achiever. However, this changed in year 4, where Burgers came out on top, although marginally, and Pies were the best performer in year 5. This is a likely indication of consumers opting for more affordable selections.

When the sample size used is broken down by varying parameters, different categories come out as the top achievers. In terms of centre sizes, burgers are preferred in smaller centres, while Pizza is the front-runner in the larger centres. With regards to main cities versus outer-lying areas, the top achiever was Burgers for main cities and Pies for outer-lying areas. When comparing the three major provinces, average TD in 12 months to August 2018 were the highest in Gauteng for Burgers, Chicken and Fish, while the Western Cape recorded the highest TD for Pies, and Pizza came out on top in KwaZulu-Natal. And lastly, when looking at international versus local retailers, in terms of Burgers, Chicken and Pizza, local retailers achieve higher TD with regards to Pizza.

From the above, it can be noted that the best performing category varies depending on the varying parameters, such as centre size, location, etc. It is thus of vital importance that a retailer be aware of their target market, location, surrounding demographics, existing competition and more. This is one of the many services which **Broll Property Intel** offers.

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