

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH REDEFINE PROPERTIES

DATE: 2017/11/03

VENUE: CSIR PRETORIA

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

Ms S Grimbeek : Principal Economist
Mr T Khumalo : Senior Legal Counsel
Prof Halton Cheadle : Apology

ON BEHALF OF REDEFINE PROPERTIES:

Mr M Wainer : Chairman
Mr D Rice : Chief Operating Officer
Ms V Chetty : Competition Law



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In the hearing of
COMPETITION COMMISSION AND REDEFINE PROPERTIES

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PROCEEDINGS ON 03 NOVEMBER 2017

CHAIRPERSON: Good afternoon ladies and gentlemen. We are now proceeding with the submission from Redefine Properties.

Firstly, let me start by introducing myself. My name is Lulama Mtanga. I am chairing these public hearings in the absence of the chairperson of this inquiry Professor Halton Cheadle, who due to circumstances beyond his control and the commission's control, could not make it this week.

I am assisted by the two colleagues and who come from the
10 Competition Commission and I will allow them to introduce themselves and thereafter, I would like you to also introduce yourselves and then I recommend after that.

MS GRIMBEEK: Good afternoon, my name is Sunel Grimbeek. I am Principal Economist at the Commission and I am also leading the technical team that is working on the grocery retail inquiry.

MR KHUMALO: Good afternoon, my name is Thabo Khumalo. I am a Senior Legal Counsel within the retail inquiry team.

20 MS CHETTY: Thank you Chair. I am Vani Chetty from Vani Chetty Competition Law. I have represented them so long and will get them to introduce themselves directly as well but on on my left is Marc Wainer, who is the Chairman of Redefine and on my right, the Director of Redefine, he is David Rice.

MR WAINER: Thanks. I am Marc Wainer. I am Chairman of Redefine. I am happy to be here and hope to be of assistance.

30 MR RICE: Thank you. I am David Rice. The Chief Operating Officer of Redefine.

CHAIRPERSON: Thank you. Is the surname Wainer?

MR WAINER: Wainer. W-a-i-n-e-r.

CHAIRPERSON: Sure. Okay, I have got it. Thank you. Thank you very much. I understand from Ms Chetty that you prefer that we proceed by way of us asking questions and you do not have any presentation that you would like to make. Do you have any opening remarks that you want to make at all? Nothing?

MR WAINER: Yes, thank you. I think that first of all, congratulations to the Commission for conducting the
10 inquiry. Of course our, as landlords, our concern is exclusivity clauses and the way the industry has evolved over the years, the need for them and the not need for them. I am happy to answer questions. I am happy to... We are happy in fact, to take any questions, of any nature whatsoever and answer them to the best of our ability We do not have presentations. We are here to try and assist by answering any concerns or questions you may have.

CHAIRPERSON: Thank you Mr Wainer. Mr Wainer can you
20 start by just telling us who Redefine Properties is and also as you sketch, as you tell us who you are but do try in the end, try and focus on the relevance to this inquiry?

MR WAINER: Okay.

CHAIRPERSON: Thank you.

MR WAINER: Redefine is a listed REIT – (Real Estate
Investment Trust). It is the second largest one in South Africa. We have a South African portfolio of about R80 billion of which forty odd percent, 41% is in retail throughout the country. We cover everything from regional shopping malls to smaller rural shopping centres. We do have two shopping
30 centres, at least two shopping centres that are in townships and fairly large ones. We are committed to South Africa. We

are trying to create jobs in South Africa and we are trying to assist people to grow in South Africa.

CHAIRPERSON: When you place yourself as second, are you second in that global portfolio of R80 billion or are you second in the retail or?

MR WAINER: No, we are second in terms of size in South Africa. The growth point is the largest.

CHAIRPERSON: Yes.

MR WAINER: We have a market capitalization of about R62
10 billion to R63 billion.

CHAIRPERSON: Yes.

MR WAINER: So our total assets are just under a R100 billion but some of that is offshore. So R80 billion is a South African portfolio and roughly 40% of that R30 billion odd, is in retail.

CHAIRPERSON: And that is retail in South Africa?

MR WAINER: Retail in South Africa.

CHAIRPERSON: And then you also mentioned that you have got two shopping centres in townships, large shopping
20 centres in the townships?

MR WAINER: *Ja*.

CHAIRPERSON: Can you specify which townships, which shopping centres are those?

MR RICE: Sure. The one is Chris Hani Vosloorus and the other is Maponya Mall.

CHAIRPERSON: Chris Hani in Vosloorus. How big are those centres, sir?

MR RICE: Maponya Mall is approximately 75 000 square metres and Chris Hani is approximately 35 000 square
30 metres.

CHAIRPERSON: We have always been... Before we deal

with the specific questions that were sent to you, there is a bit of a background that I would like to touch on. I will not be long on that. We have always been curious as to how malls had been built in the townships and we had submissions coming through. I think our curiosity arises from the submissions that had been made by individuals who appeared before us. We seem rather surprised how the malls came to be in the townships. Can you tell us in relation to your two malls that you own in Vosloorus and in Soweto
10 Maponya Mall, as to how you came to be involved in those developments? Who the owners of the land were and how you came, ja the whole background to those properties?

MR WAINER: Okay. Starting with Soweto. Maponya Mall was built by Dr Maponya. He got into some financial difficulties with his partner. We were approached and we stepped in and assisted him. So we own 50% and he owns 50%. 51% sorry and 49% to him and we helped him fund that. In Vosloorus again that was developed by another company McCormick and we were able to purchase a 50%
20 share in that one and we were not involved in the initial feasibility or the development. Those were purchased by us when they were already developed.

CHAIRPERSON: Okay. And so you came in at a, you just came at the other early stages of the malls, of those developments?

MR WAINER: They were already up and trading.

CHAIRPERSON: Up and trading, with both of them?

MR WAINER: Both of them.

CHAIRPERSON: Alright. So you were not involved in
30 deciding the tenant mix, as to who the anchor tenant must be?

MR WAINER: No, we inherited them but obviously we made changes to a number of the tenants in the centres. We also developed, it is not in a township. Are we talking rural now or just township?

CHAIRPERSON: We just talking to... I was just talking on these two specific malls.

MR WAINER: On those two, no. So the anchor tenants were in place and there were changes made to other tenants in the malls and the malls expanded and so on.

10 CHAIRPERSON: Okay. When you say malls expanded, have both Maponya Mall and the Chris Hani been expanded?

MR WAINER: David?

MR RICE: So there were plans in place to expand Chris Hani by approximately another 10 000 square metres.

CHAIRPERSON: To 45?

MR RICE: To 45. Maponya Mall has not recently been expanded, no.

CHAIRPERSON: Okay.

20 MR RICE: We have looked at feasibility to see if it is possible.

CHAIRPERSON: Okay. And then you also mentioned, Mr Wainer you mentioned that you came in and made changes. Are the changes that you referring to, specific to these two malls?

MR WAINER: Well changes are specific to any mall. So ... [intervened].

CHAIRPERSON: Okay.

30 MR WAINER: When you look at it and you see how tenants are trading, so you might find one of your other tenants not doing well because they were given space that was too large or too small, so you changed that around.

CHAIRPERSON: Okay. Do you have...? Do you own any malls in the rural areas?

MR WAINER: Yes, we do quite a number.

CHAIRPERSON: Yes. Can you touch on those? I do not know how long a list it is.

MR WAINER: Alright. So ... [intervened].

CHAIRPERSON: But you could maybe mention the provinces or the towns.

MR WAINER: Okay so if we take Westwood that is our most recent one.

CHAIRPERSON: Yes.

MR WAINER: Klerksdorp, just outside of the town.

CHAIRPERSON: Klerksdorp.

MR WAINER: We constructed 65 000?

MR RICE: Yes.

MR WAINER: 65 000 square metre shopping mall. Where we developed that in partnership with a developer who had acquired the land over a period of time from the local authority There were court cases involved in that. Other developers tried to stop the development. Eventually everything came through. So we were involved on a joint venture on the development, on the leasing, selecting the majors and all tenants and so on. That opened about two years ago.

CHAIRPERSON: Okay. Is that the only?

MR WAINER: No that is the most recent one. We have got... That is a large recent one. We have got various malls like Isipingo in Natal.

MR RICE: Acornhoek, Matsamo.

MR WAINER: Acornhoek, Matsamo in Matsamo Plaza. David can tell more. Mpumalanga, Nelspruit. So we have a number

of many, many centres of smaller size, in a lot of small towns.

CHAIRPERSON: Okay. Can you just specify maybe the provinces where you are located in the rural areas?

MR RICE: So, in KZN.

CHAIRPERSON: Yes.

MR RICE: Mpumalanga.

CHAIRPERSON: Yes.

MR RICE: North West.

10 CHAIRPERSON: Yes.

MR RICE: Ja that is, sorry and the Free State.

CHAIRPERSON: And the Free State.

MR WAINER: And the Cape.

CHAIRPERSON: Okay thank you. Are there, looking just at the first question, are there any specific considerations or do this considerations differ, when you as a property developer initiating development in an urban area, in a township area or in a rural area?

20 MR WAINER: Yes, most definitely. So, if we start, let us say with the rural area. Assuming we will not go through a process of rezoning land. We will buy land that is already re-zoned simply because of the time it takes. The obstacles, the corruption and etcetera. So we will only look at a piece of land that has already got zoning or very close to been zoned. What we then look at, is the population in the area, the LSMs. What kind of employment there is and who is the employer. So is that predominantly mining? Let us say it is a Rustenburg area or is it agriculture or is it manufacturing? What is the possibility of the sustainability of jobs and very
30 important to us is, where do the people currently have to go and shop? Do they have to take taxis and travel 30, 40

kilometres or is there something close by Also if we going to develop in a rural area, we generally would want to be able to develop of a size, so that we do become the dominant mall. So probably nothing under 15 or 20 000 square metres to start.

CHAIRPERSON: Okay. You mentioned that one of the considerations would be the LSM categories in the area. When you do look at the LSM categories, how do these, once you made a decision as to what is the majority of the LSM category that this mall will cater to? How would that influence your choice of an anchor tenant and typically which anchor tenants would you find more suitable for like the rural area?

MR WAINER: Okay. So if you have got a low ... [intervened].

CHAIRPERSON: So it is better.

MR WAINER: *Ja*. If you have got a lower LSM, your food anchor by preference would be a Shoprite or Checkers not a Pick N Pay. Simply because of the pricing points. Spar maybe as a second anchor. Woolworths in a lower LSM no. So your tenant mix is impacting by the purchasing power of the population but to some extend, that is also being negated. Not dramatically but it has been negated. Since social grants were introduced because obviously that has increased the spending power of people in the area. So for us, we look at what is it that they are going particularly when they have to travel long distance, what is it they are going to shop for and what are they going to do. But I mean, common sense tells you that in these areas, you are going to have your grocery anchor. You are going to have a PEP Stores or an Ackermans. You are not going to put Louis Vuitton in Botshabelo.

CHAIRPERSON: Okay. Can you just explain to us what was the situation...? What was the situation like or what decision would you have to... What decisions did you have to make prior to social grants been so important? And what became the situation after the social grants? I just want to understand the two scenarios?

MR WAINER: Okay, well prior to social grants been so important, it was not viable for the retailers to operate in those areas. There was not enough spending power. So
10 social grants accelerated the development of shopping malls or smaller shopping complexes in rural areas. Without that additional spend, there would not have been economic motivation for the retailers to be there. Without retailers, the developers will not build.

CHAIRPERSON: Okay and then your choice or your considerations in the rural areas, are they totally different to those in the townships?

MR WAINER: Not totally different but generally speaking it would be smaller because the populations are smaller. So
20 the size of your footprint is going to be smaller in the townships. You would go for a 30 to 40 000 square metres, even less 25 000 square metres in a township because your townships obviously are much bigger and they have bigger populations and there is generally speaking, much more competition from other shopping facilities.

CHAIRPERSON: So you are saying the shopping centre in the township would be smaller?

MR WAINER: No, the shopping centre in the township would be larger than in a rural area, generally.

30 CHAIRPERSON: So the rural township, the rural shopping centre would be 30 to 40 000 square metres that you

mentioned/

MR WAINER: In the rural area?

CHAIRPERSON: Yes.

MR WAINER: Yes.

CHAIRPERSON: Okay.

MR WAINER: For us. Simply because they will do smaller. They could do 5000 or 6000.

CHAIRPERSON: Okay.

10 MR RICE: And there is a trend at the moment for bigger centres to be built.

CHAIRPERSON: In the rural areas?

MR RICE: In the rural areas, *ja*.

CHAIRPERSON: What is influencing it? What is the driver behind that trend?

MR RICE: The numbers and spending power in the area.

CHAIRPERSON: And what does influence the spending power?

MR RICE: Social grants.

CHAIRPERSON: Social grants?

20 MR RICE: *Ja*.

CHAIRPERSON: Okay.

MR WAINER: I think what is also important Chairperson, is when we talk about a township, if we talk about Soweto, you could be having a shopping mall in a number of places. You could be in Baragwanath. You could be in Protea Glen. So it is not like a rural area, where it is a relatively small contained area.

CHAIRPERSON: Yes.

MR WAINER: Soweto is a big place.

30 CHAIRPERSON: And then again, when you look at a township, would your consideration of who becomes an

anchor tenant for the shopping centre be different to the considerations that you would have made in relation to the rural area?

MR WAINER: I think your choice of who your anchor is going to be, is very much dependent on demographics, again. If we do a new shopping centre in Protea Glen that might be good for a Pick N Pay, where as in Baragwanath might suit a Shoprite. So you have to look at who is your customer and what is their preference. We cannot ideally
10 impose a tenant on a population or your potential is not going to be well accepted by them. So it varies from area to area. We look at every development and we say, what is the right tenant mix for this, after whole process of looking at where the people shop, interviewing, having groups, etcetera and who do you prefer.

CHAIRPERSON: And then when you make a decision as to how big that anchor should be, is that your decision or is it a joint decision between yourselves and the anchor tenant on how big the store should be?

20 MR WAINER: We have a wish list. So we might start of and say, 3000 or 3500 square metres for a Checkers and when they do their numbers and they come back and say 2500 or they might want more or they might want less. So they do their own market studies, independently of ours.

CHAIRPERSON: So will do their own market studies?

MR WAINER: Correct.

MR KHUMALO: So, how do you conduct those studies? Is it... Do you employ people from the area or what do you base it on?

30 MR WAINER: So there are a number of companies who do demographic studies. They will go out and they will look at

the size of the population, the LSM. They come back and tell you, this area needs so many square metres for food, so many for fashion, this and the other. We start with that and then we do our own because in all my years in property, I have never seen one of those come back and say a shopping centre is not required.

MR KHUMALO: So, how reliable are they in terms of the demographics?

10 MR WAINER: Well, they are pretty good. I think they are pretty good. I think they tend to usually overestimate the size that required. So tell you this area can have 60 000 square metres and it is probably 35 000 square metres. So you know, these are all business decisions and at the end of the day, if somebody tells you, you think you can build a 50 000 square meter centre. Ideally you want between 60% to 70% of your tenants, to be national tenants. So that is your food anchors plus your auxiliary tenants. So, if you not going to fill it on that basis, build a smaller centre.

20 MR KHUMALO: I was... I mean my previous experiences predicated on the examples you used like Baragwanath and ...

MR WAINER: Protea.

MR KHUMALO: Protea Glen. I mean is the LSM categories not the same in say Baragwanath, Diepkloof area and Protea Glen.

30 MR WAINER: Not quite. I do not think so. I think the way we perceive it at the moment; Protea Glen has become very aspirational. It is slightly more expensive in terms of housing and rest of it. So the people there are generally more employed, State employees, Government employees. People who are more affluent or have more disposable income than

somebody living in Diepsloot or somewhere else. So each one, I am not an expert but we evaluated each one on its merits. We visit, we walk, and we talk.

MR KHUMALO: And that mix of 70% of nationals, is it also based on the similar considerations/

MR WAINER: It is just that security of income and what we find is that your smaller tenants and your line shops are quite difficult to fill. So you need that mix in order for a shopping centre to be successful. Somebody needs to be able to go in there and basically find more or less everything that they want, under one roof. So you need your food anchor. You need your Truworths, your Foschini. Depending on, it might be Ackermans and PEP in a different area but you need a range of fashion. You need food. You need your cell phone shops. Do you need to have all three cell phone shops or two or one, depending on what happens? So all of these things, we have to go through and say, does it work?

MR RICE: Typically, the retailers do a similar exercise and they identify for themselves, what they think is the optimum space that they would require.

CHAIRPERSON: I have heard the term been mentioned that when malls or shopping centres were been considered for townships and the rural areas, the basis or the justifications for these centres, is that these areas were un-serviced. What is the feed, what do you mean by un-service because in my understanding is that they would have been operators, there would have been retailers in those areas. Bakeries, butcheries operating. So what is meant by un-service in this context and that will justify a shopping centre as to proposed as to what is in this?

MR WAINER: So in these areas, as I alluded to earlier, you

do have local operators, be the Spars or shops, butchers, bakers, bottle stores, shebeen or whatever they might be and what you will find is that particularly month end or on a weekend, people who are travelling, so let say the next shopping centre is 30 or 35 kilometres away or 40 kilometres, they will be getting into taxis, doing the bulk of their shopping there and using the local retailers for filling and that is what we mean by under-service because for those people to have to travel 30 or 40 kilometres to do their
10 weekly or monthly shopping, it is a hassle and that cries out for a shopping centre, into which hopefully some of those local operators will become what we call the mom and pop shops, the local independent retailers.

CHAIRPERSON: Okay. Can you make an example of that for me, just to understand it, not that I understand the area very well but I do understand for example in Soweto, there was a mall in Jabulani, there was an area where they were trading.

MR WAINER: Jabulani Mall?

CHAIRPERSON: Jabulani Mall which has been operating
20 way back in the day and then now there is a new, I think there is a shopping centre in the area, a new development in the area. What would have been considered as an underservice in that area?

MR WAINER: So that is a good question. So Jabulani Mall is a large mall. It is not one of ours.

CHAIRPERSON: Yes.

MR WAINER: And it is certainly bigger than ours. It is a dominant mall in probably Soweto and somebody and I am not a 100% sure but I think built or is building a shopping
30 centre nearby.

CHAIRPERSON: Yes.

MR WAINER: With a tower, what do you call that, those cooling towers or whatever by the lake? They were building something there. It is much smaller. I am not sure if they can get the right tenants but if for example Jabulani has a Checkers and a Shoprite but no Woolworths or no Spar, maybe they able to get a tenant there. Also the kind of shopping centre because if you go to Jabulani, it is an enclosed mall. So it is not convenience. So you cannot just pop in or get out of your car, go in and buy a litre of milk and drive out. You have got to walk all the way through. So as those becomes more successful, more convenience type of retail, smaller centres, easier access, just drive in, strip shopping become also convenient because the big malls get very busy.

CHAIRPERSON: Yes.

MR WAINER: And that becomes a hassle sometimes, to shop. So you know anything from a garage shop to a mall is a retailer more competitive at different times, opening and closing times, convenience and all the rest of it.

CHAIRPERSON: We have also have and you touched on this point on competition. So you are saying that a mall could compete with a convenience centre and a retailer in the area, depending what factors there are?

MR WAINER: Every single person who sells something, from a walker to a garage shop to a hypermarket, are competing for somebody's rang and it is a question of price, position, where you located, convenience and all of these things. So a garage shop is open generally 24 hours a day. A shopping centres trade normal hours. So if you need bread and mild or in my case cigarettes and it is 10 o'clock at night, you not going to get it in the shopping centre.

CHAIRPERSON: Okay.

MR KHUMALO: So the distance matter and if you can maybe cover this brand difference, does it matter how far the garage shop is from the mall or?

MR WAINER: Not necessarily. I mean, if I leave here now, okay and I am going back home and I go past Brooklyn Mall and I need a packet of cigarettes, I am not going to go to Brooklyn Mall for cigarettes; I look for the nearest garage shop that is the closest to that. You get shopping malls that
10 can be opposite each other but is the offering any different.

So one might have a Pick n Pay and one might have Shoprite and one might have a better offering in terms of fashion to the other or they may not be different at all and the only reason that you have got two shopping centres, both which are not great, is because there was an exclusivity clause and Checkers could not open. So someone saw an opportunity to develop across the road.

But *ja* I think it is and you know it also comes back to things, very simple basic retailing, things like service, ease, ease of
20 parking, do you charge for parking, do you not charge for parking, do people feel secure and all of these things. As developers, we have to look after, to say that if we have a competing mall; customers prefer our mall to the opposition.

CHAIRPERSON: You touched on the zoning aspect of development, for development that exists. Can you take us through the various steps that are followed in getting an area rezoned for the development of a shopping centre, a development and if that is not too blanket?

MR WAINER: As I say, we do not do a lot of that. David, I do
30 not know if you know?

MR RICE: We do not do a lot of that.

CHAIRPERSON: You avoid this?

MR RICE: It is not really our ... Most of the shopping centres we have, we had acquired from somebody else.

MR WAINER: Or when we develop, the land is already or close to be ready.

CHAIRPERSON: Yes.

MR WAINER: Because it takes people three, four years and from what we hear and on occasions, especially if two people are competing for sites you know, in a rural area.
10 Everybody wants something out of it and you know, as a listed company, we are not prepared to get involved in that.

CHAIRPERSON: Okay. Just to really get your comment on what you have just said now that you never do the initial development or that requires rezoning.

MR WAINER: No.

CHAIRPERSON: You acquire an existing development?

MR WAINER: Existing on the land we have to develop. If the land has already gone through the process of been rezone or is very close to it and has gone through all the steps and it
20 is just a formality. So we will buy land that is un-serviced but where the approvals for the zoning is gone through, we will put in the money to provide the services, the earth works, everything and take it from there but we are not going to go and look and buy a farm and then have to go through the process of rezoning.

CHAIRPERSON: Sure. On the retail side of your property, development, what is Redefine the approach, is it a long term approach, short term approach, a medium approach? Do you go into ... [intervened].

30 MR WAINER: Long term.

CHAIRPERSON: Long term. Long term, as in how long may

perhaps?

MR WAINER: It is 20, 30. Look we do sell properties.

CHAIRPERSON: Yes.

MR WAINER: But we sell properties when they get to a stage where we cannot add value or we see it is declining. We an income fund.

CHAIRPERSON: Yes.

MR WAINER: So we are not traders of property. We are not developers to sell. So we have shareholders that expect an
10 annual income from the assets.

CHAIRPERSON: Yes.

MR WAINER: So we look to buy or to develop. Hold them long term and continually improve the income and the facilities. We might start with a 25 000 square metre, 35 000 if it is doing well, find a way of adding another 10 000 square metre, if there is demand and just keep adding to and improving.

CHAIRPERSON: Okay. So you say that you will sell where a development or a property does not add value. What do
20 you mean by those properties that does not add value?

MR WAINER: So if we find a property of sales that are declining, tenants do not want to renew, somebody else has opened a better mall, a competing mall. We do not believe it is worth putting more money into it. We sell it to somebody who has a different vision.

CHAIRPERSON: Okay. Do you have any views as to who qualify as an anchor tenants and do you have a confined list of who these anchor tenants are or can be and do you have a list of people that you know that are disqualified already as
30 anchor tenants in the grocery retailing? In the grocery retailers ... [intervened].

MR WAINER: Groceries retailers basically. So, we have got very limited choice.

CHAIRPERSON: Ja.

MR WAINER: Okay. So ... [intervened]

CHAIRPERSON: And who are they?

MR WAINER: Pick n Pay, Shoprite Checkers, Woolworths, Spar, Food Lovers Market.

CHAIRPERSON: Food Lovers Market, ja.

MR KHUMALO: Food Lovers Market.

10 CHAIRPERSON: This does not matter where you are, whether it is rural townships and the reason for that limitation?

MR WAINER: Because that is who the players are, okay.

CHAIRPERSON: Yes.

MR WAINER: Meaning now we have got but they are only in a limited area, Chappies from Botswana but generally speaking, we only have limited, if we talking grocery anchors.

CHAIRPERSON: Yes.

20 MR WAINER: That is who we have got. So and as I eluded to earlier, if we going into Dwarsloop or somewhere, Pick n Pay is not going to be the right anchor, nor is Spar.

CHAIRPERSON: Yes.

MR WAINER: So we are kind of limited to whether it to be a Shoprite or Checkers or a Shoprite, if they do not want to come there, we cannot develop that and take it off the list because Pick n Pay has started going into some of the areas but I think that the price point for those areas is not correct.

CHAIRPERSON: Yes.

30 MR WAINER: So it is not going to be that successful.

CHAIRPERSON: Okay. Just to share with us as to what is

the trend in terms of looking at it as a property developer, what is the trend from the grocery retail side? Is there now more preference for locating themselves in shopping centres or is there still a balance where you find grocery retailers will still elect initially that if they are happy to operate in standalone premises or?

MR WAINER: We do not see too many stand alone premises from the grocery retailers. It is the exception, rather than the rule.

10 CHAIRPERSON: Yes.

MR WAINER: But incidentally, it was a very big trend in America and now they all moving into malls. Partly because the malls need to fill up space and they had lowered the rentals but you get a Makro kind of standalone that is common and that works but there are very few grocery retailers or otherwise that really survive in a standalone.

CHAIRPERSON: So amongst the retailers, you say very few retailers that will survive when they are standalone?

MR WAINER: Yes.

20 MR RICE: I think the only time you find it, is if you in a rural area and you have what we refer to as strip shopping.

CHAIRPERSON: Yes.

MR RICE: So it is not a shopping centre, it is all like a row in a street. It is actually a high street in the area. Then you might well find standalone stores.

CHAIRPERSON: Can you make an example of a street shopping like that and if you can give one?

MR WAINER: Ja, I mean street shopping is common, if you take Melville in Johannesburg or Norwood that is street shopping. So you will get a retailer and it could be anyone of
30 the grocery guys, who would have a presence in three or

four of those shops for size.

CHAIRPERSON: Yes.

MR WAINER: It is not a new enclosed shopping mall per say but say you are walking down the street and there are many, many throughout South Africa of those. Where you have got your Ackermans, your butcher, PEP, your baker and your supermarket and whatever.

CHAIRPERSON: Yes.

10 MR WAINER: Which is walking down the pavement. So there is not a mall in the sense of the word that it is enclosed and all the rest of that. So I am not regarding that as standalone.

CHAIRPERSON: Yes.

MR WAINER: To me. I think you are saying, somebody goes and build.

CHAIRPERSON: Yes.

MR WAINER: A freestanding supermarket somewhere.

CHAIRPERSON: Yes. So you are saying locally, in South Africa, the trend by far is that you find more grocery retailers in a shopping centre setup?

20 MR WAINER: In a shopping centre or in some of the rural areas, as David described it as strip shopping.

CHAIRPERSON: Yes.

MR WAINER: On the streets.

CHAIRPERSON: Okay and are there any benefits as a property developer that you understand to be very important for these grocery retailers to locate themselves in, either in a shopping centre specifically?

30 MR WAINER: Yes because look a shopping centre provides convenience or it is supposed to provide convenience. So lots of parking, ease of access and the spinoff benefit. So people used to think that the grocery retailer brought the

foot traffic, which they do and there would be a spinoff on the other shops.

Generally speaking, when people go and buy food, they buy it and they go home because they have got perishables but by the same token if you may go to buy airtime and they go into for example or a dress, they would then very well go into the shopping centre. So shopping centres have been designed to be a one stop shop. So in theory, you should be able to go into a reasonable shopping centre and be able to
10 find whatever it is within reason that you looking for. So you could go and buy some groceries, go buy a dress for the party you going tonight or earrings or have your hair done, top up your airtime, buy a bottle of beer or whisky or whatever it is that you want to drink and you should be able to do it in one place.

That is the whole concept of shopping centres and it is important to have a food retailer, a food anchor because people generally spend more on food than they do no anything else.

20 CHAIRPERSON: Okay. What is Redefine Properties articulate and approach to exclusiveness in the centre that you own or that you still intend to own, just as a strategy? What is your approach there?

MR WAINER: We hate them. Okay, to be perfectly frank and honest, we absolute hate them. In our negotiations with retailers, we will not give an exclusivity clause at all, okay.

CHAIRPERSON: Okay.

MR WAINER: We get pressured to give in, we do not. Where we found we have enormous problems, as David said,
30 we buy a lot of centres. We buy a lot of portfolios.

CHAIRPERSON: Yes.

MR WAINER: They come with exclusivity clauses. We have exclusivity clauses that go back 25 years ago?

MR RICE: Yes.

MR WAINER: 25 years.

CHAIRPERSON: Yes.

MR WAINER: And the retailers still insist on keeping it.

CHAIRPERSON: Yes.

MR WAINER: And when you talk about exclusivity clauses, it comes with a myriad of complications.

10 CHAIRPERSON: *Ja*.

MR WAINER: So, it is not just, I am the only supermarket, okay.

CHAIRPERSON: *Ja*.

MR WAINER: It is, you cannot have a butcher of more than this size or bakery of this size. So now you have a bakery of 200 square metres because that is what your exclusivity says. That bakery becomes successful and wants to expand. You cannot do it because it is so. Then what is it that, that grocery, that this all in, this is a grocery store. So you talk
20 about exclusivities. Now, whoever envisaged 25 years ago that grocery stores would sell cell phones, which is a big part of their business?

So, imagine if we have had such a thing as a small cell phone shop and they had exclusivity. The retailers, the grocery shops have usage clause that says that they can sell anything that is normally associated with their business. So they can put in cell phones. They can put in this. They can put in that and they disturbed the small cannons. It is anti competitive, okay. It is, I think it is protectionist, okay.

30 MR WAINER: So it is not alone. So if you go back 20 years, there was no such thing as Food Lovers Market, okay.

CHAIRPERSON: Yes.

MR WAINER: Food Lovers Market is a new entry and they really battle to get sites.

CHAIRPERSON: Yes.

MR WAINER: So we had one of the first situations, as Redefine. Food Lovers Market wanted to come into one of our centres. The other retailer, Pick n Pay had exclusivity and they said generously when we asked them to relax it, we can have and allow a Food Lovers, which is right on the
10 other side of the centre of I think, 400 or 500 square metres. They wanted 3000. They would not give permission. So we said that we do it anyway and we let Food Lovers in and surprise, surprise, both are doing very well. Pick n Pay's turnover went up and Food Lovers are doing very, very well. And Pick n Pay threaten to sue us and sue for damages and do all kinds of things. So Mr Joubert just walking out, we did not refer to it but and that is what we do because it just, it does not make sense. We not, we are in business.

CHAIRPERSON: Yes.

20 MR WAINER: Okay, we are no different to Pick n Pay or Food Lovers selling apples or pears or bake beans or peas. We are selling space, okay.

CHAIRPERSON: Yes.

MR WAINER: So we are not going to destroy and in our investments running into tens, twenty, 100 millions of rand.

CHAIRPERSON: Yes.

MR WAINER: So we cannot go and take a 10 000 or 15 000 square metres shopping centre that has got a Checkers and put a Pick n Pay in because they both will not survive, okay.

30 CHAIRPERSON: Yes.

MR WAINER: The size of the shopping centre will determine

how many food anchors you can have. How many other people you can have. You can imagine and I there are examples of it, where you have some people have built relatively small centres. They have a Checkers, a Pick n Pay. Sorry, a Checkers, a Woolworths and Food Lovers Market, in a relatively small centre. None of them do well. So what will happen at the end of the leases, either all of them are going to get a reduce rent or one them is going to move out.

CHAIRPERSON: And that.

10 MR WAINER: So, it is a crazy business decision from the start.

CHAIRPERSON: Yes.

MR WAINER: And then you talk about exclusivities and the food people will tell you, oh we have to recoup our investment and we are taking risk but then you take those examples and you say, excuse me, why have you gone in, and you know from day one, you Mr Pick n Pay or Mr Checkers, you know you are going into a centre of 20 000 square metres with a Woolworths food and not with the
20 whole Woolworths but just Woolworths food, a big one and a Pick n Pay and a Food Lovers. You knew when you went in. So why is it different when you going into some other area and you demand exclusivity?

CHAIRPERSON: Yes. Are you at liberty to give us the name of the mall where you imposed Food Lovers Market on Pick n Pay?

MR WAINER: Park Meadows.

CHAIRPERSON: Park Meadow.

MR WAINER: Opposite Bedfordview in Bedfordview.

30 CHAIRPERSON: Is there in your view, is there any basis for anchor tenants to be concerned because what has come out

of these public hearings and some of the submissions, who send submissions, on not trusting property developers to make the right business decision and a business decision that is aligning to their interest. The interest are basically being that to keep the anchor tenant profitable and they are saying that it has happened, I do not know how frequently this happened.

MR WAINER: It happens and it happens for a couple of reasons.

10 CHAIRPERSON: *Ja*.

MR WAINER: Sometimes you do get an irresponsible or desperate property owner or a developer. Usually private client and that may happen, okay but at the same time, we have the same argument because what every often happens, is your retailer, for whatever reason is not putting the right merchandise in the store. If it is a grocery anchor, he is not probably merchandise. He is trading very poorly, which affects us, okay.

CHAIRPERSON: So that is ... [intervened].

20 MR WAINER: So we monitor every tenant, every store. We know, we work on trading densities. I am sure you are familiar with what trading densities are.

CHAIRPERSON: Yes.

MR WAINER: And we can compare any grocery retailer in a similar centre and we say okay, you doing 20 000 square metres, R20 000 per square metre and suddenly here is a shop that is doing 10 or 12. There is a reason and in particularly when compare those trading densities to the other tenant. So you are doing something wrong. You overcharging. You not giving customers service. I do not
30 know what you doing but there is something wrong with your

operation, not ours. Property developers, I mean if you talk about a grocery anchor, he is going to open a 2000 or 3000 square metres store and he has got a capital investment, I do not know, of R10 million or whatever it might be.

CHAIRPERSON: Yes.

MR WAINER: The property developer's exposure to his mall, okay, is a R100 million. So we have got much more to lose than the tenant as if the thing does not work.

CHAIRPERSON: Yes.

10 MR WAINER: The fact that we got bricks and mortar and you cannot pick it up and take it up put the bake beans in your handbag, does not mitigate our risk, okay. Our wealth, our investment can be stolen by bad tenants.

CHAIRPERSON: Yes.

MR RICE: There is another aspect and that is that when one is looking to achieve turnover rental.

CHAIRPERSON: Yes.

20 MR RICE: So if you make a mistake like that then you are not likely to achieve that turnover rental from your supermarket. So there is a negative impact from that perspective.

CHAIRPERSON: Just going back on the point you made about looking at the trading densities. Can you just speak more about what picture would the trading densities are depict, where you have an anchor tenant who is not doing the right thing and giving or having the right offering, what would be talking about in terms of that? Just speak about this.

30 MR RICE: You means in terms of what would happen with surrounding shops?

CHAIRPERSON: Yes.

MR WAINER: How do we pick it up?

CHAIRPERSON: Yes, would there more ... [intervened].

MR RICE: How do we pick it up?

CHAIRPERSON: How do you pick it up from the trading, when you analyse trading densities? How would pick up the message that actually the problem is with you, Mr Anchor tenant?

MR RICE: Typically, we would get the information from the tenant, to start with.

10 CHAIRPERSON: Yes.

MR RICE: We would have bench mark, by what a specific tenant should be achieving in terms of trading density and what would work from that perspective. Then you go to background things that they call heat maps.

CHAIRPERSON: Yes.

MR RICE: So you look at a shopping centre plan and you look to see where the spending is in the centre and then you can identify the flow of traffic, why they go to certain places, etcetera and etcetera.

20 CHAIRPERSON: Okay. So you look at the foot fall to the store.

MR RICE: Yes.

CHAIRPERSON: And whether it translating to that.

MR RICE: Correct and the foot fall to the entire centre.

CHAIRPERSON: And to the entire centre.

MR RICE: Yes.

CHAIRPERSON: And that kind of tells you that there is unhappiness with a specific tenant. What would ... [intervened].

30 MR RICE: It gives you an indication and what you may well find is that shops that are along side of it and in particular

shops that are not doing well, in particularly an anchor.

CHAIRPERSON: Yes.

MR RICE: Would be negatively impact if that particular anchor is doing poorly.

MR WAINER: Or you just find that the management is poor and you are going to the store and you walk around and they sold bottle our of tomato sauce.

CHAIRPERSON: Yes.

10 MR WAINER: No tomato sauce on the shelf or no rice and that is just poor management.

CHAIRPERSON: Yes.

MR WAINER: So and what happens, people go once, people go twice and if they do not get what they want then oh well there is a ... [intervened],

CHAIRPERSON: Will not come back again.

MR WAINER: There is Pick n Pay or somebody across the road, let us go there and they do not come back.

CHAIRPERSON: And then?

20 MR WAINER: And then they blame the landlord. We always get the blame.

CHAIRPERSON: This is interesting. Okay and so when you pick up, let us say poor management of the store, as a landlord and a developer and owner of this property, how do you pick this up? Do you walk into the store and make your own judgment and assessment or how?

MR WAINER: *Ja* so look, we have got managers. We have got shopping centre managers, portfolio managers, all the way up to ...[intervened].

CHAIRPERSON: Who monitor.

30 MR WAINER: Who monitor and they will say or they would say why is this tenant not there and they will come back and

say it is poor merchandising, it is this, the manager is rude, people come at month end and only three of the tills are open, instead of ten. All those kind of things and then we go and we engage with the management or whoever it might be, Shoprite Checkers. Then we say, look we see these problems, they promised to attend to it. Maybe they do. Maybe they do not. That is one of the big issues. By the way, how many particularly at month end? How many till points they open because they design them say for 20 but open six
10 and people standing in lines forever. And people just abandon their trolleys and go somewhere else.

MS CHETTY: I just want to add in. I think the common theme that is coming out is that it is in the interest of the owner of the centre for all the tenants to do well.

CHAIRPERSON: Yes.

MS CHETTY: If the anchors are doing well and the surrounding shops, it is in the benefit of everybody. So that is the common theme that is coming out as well.

CHAIRPERSON: Okay. Thank you Ms Chetty. So when you,
20 you have said, your approach and attitude towards exclusivity is that you hate them and you try and not to bind yourselves into any exclusivity and what has been your experience as Redefine on the performance? I would like you to elaborate this and illustrate it with examples, other than the one you gave us, Park Meadow, on the successes of these properties where you did away with exclusivity because we have you saying that and then we have the shopping, we have the retailers advocating for some of these
30 exclusivities to be retained because they also feel that removing them, will affect the investment that they have made in these business, the course that they have been

kept. They have put in money, huge amounts of money. They are bearing costs than any tenant in that shopping centre and in fact they are carrying that tenant, that mall, without them there would never have been a mall, for that matter.

MR WAINER: Not a 100% correct because as I say, we as the developer take the bigger risk. Secondly, a responsible developer for want of a better word, is not going to go and add another week. We start off, if we start off with day one with let us say two, let us say we are building a 40 000 or
10 50 000 square metre centre.

CHAIRPERSON: Yes.

MR WAINER: Day one, we are going to say here is going to be a Pick n Pay and a Checkers or Pick n Pay and a Spar on either end of the centre because you do not put them next to each other. You put them apart and everybody knows, including the retailers. When they sign that there are two. If you now have a 25 000 square metres, let us take Chris Hani which started off at 35 000 and now it is going to 45 000. I think we have got more, I do not know. So we have got one
20 supermarket at 45 000, maybe it justify another one. Now of course whoever the supermarket is there, is going to complain because they are going to take away some of the business but there is also performance. Not one of the centres we have now, the famous shopping centre in Cape Town. I am sure you know it.

CHAIRPERSON: I know.

MR WAINER: You can now walk. We were involved. We bought that a few years for high prop and I was involved and there is a Pick n Pay and there is a Checkers.

30 CHAIRPERSON: Yes.

MR WAINER: And Checkers outperform Pick n Pay, almost

two to one on the same size shops.

CHAIRPERSON: Yes.

MR WAINER: So Pick n Pay would complain that well Checkers customers do not pay for parking but they have the same one hour free and they have a better location and it was just poor performance. It was as simple as that.

CHAIRPERSON: Yes.

MR WAINER: When they fixed up their performance, their turnovers coming on. Checkers lost a little bit. Pick n Pay
10 gain a little bit but the centre gain.

CHAIRPERSON: Yes.

MR WAINER: Okay so, nobody is going to go and take away from them and competition is good. When we put Food Lovers into Park Meadows, Mr Sakkie was going to sue me and all the rest of it and he said in the first instance, I think the first few months their turnover did drop a little bit.

CHAIRPERSON: Yes.

MR WAINER: And then it came back because more people came to the centre.

20 CHAIRPERSON: *Ja*.

MR WAINER: It was as simple as that and competition is good and at the end of the day, we need to create shopping centres that are good for the consumers, okay. So the more choice we can give the consumers, if you have got two supermarkets in a centre of reasonable size, they compete and the consumer will decide where they are going to shop or maybe they shop in both because they both have got specials and you buy some stuff here and some stuff there. Our job as the developer and the owner of the shopping
30 centre, is to make the experience of the customer the best possible and that is in terms of comfort, everything that goes

with it and also to have shops in the centre that are competitive.

CHAIRPERSON: Ja. Can I request that in answer to part of my question, those like you have said. You provide us with a written submission on what... What is in your experience, where you have removed exclusivity and also do indicate where there has been a success for both anchor tenants or whoever you allowed in, into the centre and actually where your decision was actually wrong? And then we just want to
10 get a sense of that and how often you are correct and how often these decisions are wrong.

MR WAINER: Trading densities for Pick n Pay.

MR RICE: Ja that is your the easiest way of picking that up. It is just to continuously look at the trading densities.

CHAIRPERSON: Yes.

MR RICE: For each of the stores.

MR WAINER: But what happens as well, just to come back to what the grocery retailer say.

CHAIRPERSON: Yes.

20 MR WAINER: And I do not know if these would but we go to a particular retailer and say, will you remove your exclusivity.

CHAIRPERSON: Oh.

MR WAINER: We do not get an argument in terms of, we not giving it up but then it is, what is in it for me. Okay so, you give us a lower rent somewhere else or you give us a tenant installation or you do this or the other.

MR RICE: Ja.

MR WAINER: And then we prepared to release it. So, all they are doing is taking exclusivity, which they claim, okay
30 and I say 'claim' in inverted commas, we need but if we going to ask them and we have had those.

MR RICE: Ja we have had them.

MR WAINER: And we had those where they say, okay we will take it away but we are not giving it up for nothing.

CHAIRPERSON: Yes.

MR WAINER: Oaky so, now it becomes for them an asset which they trading with their landlord.

CHAIRPERSON: Okay. So they use it to get something out of the deal.

10 MR WAINER: Ja. So they say okay, we will give it up but you give us R2 million to fix up this and give us a R1 million or give us a lower renting in your new development or something.

CHAIRPERSON: Yes.

MR WAINER: And then they will give it up. So you cannot sit and tell me okay, they cannot that we need exclusivities to stop somebody else trading, when they prepare to sell that right.

CHAIRPERSON: Yes.

MR RICE: And that is becoming quite common for us.

20 CHAIRPERSON: Can we request that you give us, if you are comfortable with providing us with a list of all those instances where you are approach the anchor tenants to waive their exclusivities and ...[intervened].

MR WAINER: And they ask for money.

CHAIRPERSON: And then they ask for something else in return?

MR WAINER: Sure.

CHAIRPERSON: Whether money or something else.

MR WAINER: Sure. Ja we can do that.

30 CHAIRPERSON: You deal with that if you can exhaust it, please exhaust that?

MR WAINER: Okay.

CHAIRPERSON: Thank you very much. I have got no further questions.

MR KHUMALO: I just have a few on rental, sorry. We come to understand that there are different components to rent, if you can take us... [Intervened]

MR WAINER: Sorry, I cannot hear.

MR KHUMALO: *Ja*, we come to understand that there are different components or different types of rental. Can you
10 take us through the different?

MR WAINER: Well there is essentially base rental and turnover rental. Two types of rental. So you start off by saying to a tenant and it is not just your grocery retailers, it is generally across the board that we will give you a rental of R19 a square metre or 2% of turnover, whichever is the higher. So once the tenant reaches a threshold, you participate in their growth. Which is another reason why... Sorry, a developer would not just willy-nilly, put another competing tenant in because you are going to take turnover
20 away and you will not, either you will not achieve that threshold or you are going to take it away and that applies to clothing retailers, all kinds of people.

It is also interesting, sorry just to when you come to exclusivities, if you think about it. The grocery retailers want exclusivities but your fashion retailers, Truworths, Foschini, Mr Price will not come into a centre, unless their competitors are there.

MR KHUMALO: So what type of competitors do they want there? If it is Woolworths, do they want Foschini and Edgars or would they want a small, say Levi's shop or what?
30

MR WAINER: No, no they want their major competitors. The

other major retailers and the more the merrier because they work out over the years, if you go and you want to buy a blue shirt and they have not got it, you go somewhere else and buy it but next time you buy it from them. So they want people to have comparative shopping. Whereas the grocery retailers, want monopolies.

MR KHUMALO: So, if we go back to the rental, is if I come into your malls or centre, is that all that I will be expected to pay in terms of the ...[intervened]?

10 MR WAINER: No, no. So that is rental, okay. So we say, okay you are taking a 100 square metres at R100 a square metre. That is your rental. If you do well, we want some turnover in addition, depending on the kind of centre you are responsible for, for electricity rates, water, all the municipal charges, any increases in rates and taxes and then if it is a big centre and they have a merchants association that promotes the centre, then there is a contribution towards that and the landlord also contributes towards that. That is to put on the promotions such as father's day, mother's day,
20 Christmas and all those kind of things.

MR RICE: And then in addition to that there will be contribution towards operating costs. So your cleaning and security costs.

MR KHUMALO: So would that or what was it call? Would that be the common area?

MR WAINER: Yes.

MR KHUMALO: And we were trying to make sense of it yesterday, my colleagues and I. How are those calculated? I mean if I operating a store that side and she is operating the
30 rest of the centre.

MR RICE: That is generally done on that basis. It is a

prorated basis. So if you occupy 5% of the centre, typically you would pay 5% of those costs.

MR KHUMALO: And it is not anywhere linked to the amount of rentals I am paying?

MR WAINER: No. So, if you go back. There are two ways of doing rentals. If you go back, I do not know 15 or 20 years. We used to what we called a gross rental. Say we are saying to you today, your rental was a R100, we would have included operating costs and say that your rental is a R120
10 but inflation might have been 10% or 15% and operating costs either growing at a lower or higher percentage to that. So it was separated. So we said, this is your rental. This is your operating costs, common area costs. The common area costs go up, not by, it used to be by a way of escalation, by way of actual.

So if security guards and cleaners get a big wage increase, it would go up more. If we contain those costs, it would go up less and it is exactly proportionate to how much space you operate. So if you are paying a R100 a metre and your
20 neighbour was paying R200 a metre, by way of an example and you both had the same size stores, you would both pay the same operating costs.

MR KHUMALO: Okay. Just on that as a follow up. Then we have heard that the latter retailers pay an X amount of rental, as they rent per square metre and the smaller stores, generally paid double to tripled that amount.

MR WAINER: It depends. It depends where on the centre. Clearly, if somebody takes two or three thousand square metres and somebody takes a 100 square metres, it is going
30 to be different. It is bulk sale. There is more certainty. So, if you went again and we come back to your shirt. So, if you

went into a manufacturer and wanted to buy one shirt, you going to get one price. Go and ask him for 250 shirts, you are going to get a different price and the same applies to space of course then...

So, first of all, there is the size of the space, so the more space you take, whether you are a grocery retailer or anybody else. The more space you take, the better rental you going to get, relatively speaking. When you come down to somebody who has got the cigarette shop of 20 square
10 metres, he is going to pay four times the rent or whatever it is.

The second thing that relates to that is the security of the income. So you know listed companies, blue chip companies, your renters, they sign a 10 year lease. There is a pretty good chance that you are going to collect your rent for 10 years, okay. From the guy who is making pies and selling them, you not that sure. His credit risk is higher and that is factored into your rent.

MR RICE: The position within the centre also plays a big
20 role. So you could have two shops of the same size in different areas and paying different rentals, rental rates.

MR KHUMALO: Okay, now I need your help. Would it not be self defeating? I mean that if I been paying the same, you know, say we use Nitro. If I pay Nitro in a square metre and Pick n Pay Nitro in a square metre and I know for a fact that in the mall down the road, I will be paying R270 a square metre, am I not likely to stay in your store, in your mall and make more money as security or?

MR WAINER: But if I was charging Pick n Pay R90 a square
30 metre and you R90 a square metre, I would be out of business. The bank would have taken away my property

because I could not pay my mortgage and it would not be viable. You could never make the mall work on that basis. You have to remember that what happens, if somebody is developing a mall today, okay.

They are going to from scratch, they are going to have a plan. They are going to pre-let it. They going to go to Nedbank or FNB or whoever and say, okay I have got a mall. Here is my costs. Here is the architect's plans. Here is the surveyor. It is going to cost me R100 million and based on
10 my pre-lettings and my estimates, I am going to get R8 million a year or R8.5 million a year of income because that is the best, they are going to do. Eight to eight and a half.

The banks are going to look at it and say okay, we will give you R60 million or R65 million against this but the interest rate is 10% or 10.5%. Which means for the first two or three years that developer is getting no return on his R30 million or R35 million because the banks are charging him 2.5% more, than what his return is. So if he comes and he says
20 okay, I am getting R90 from everybody. He will never get his scheme of the ground because he will never get the return.

You have to remember, besides from exclusivity clauses, the retailers, we come back to anchor tenants. They know upfront that on this size store, this is more or less the turnover we can do and I used R90 a metre because we know R90 to R110 a metre is the most you going to get from the grocery retailer. Is that right?

MR RICE: Yes.

MR WAINER: R90 to R110, depending. That is what you can get from a grocery retailer. If you went to them and you said
30 that I want R140 or R150, they say sorry, my business is not viable because their margins, do not forget, every tenant

works on a different margin. So grocery tenants work on a very small margin and if you are a jewellery and you are selling diamonds, you only have to sell one every three or four days and you are doing very nicely because you are making for every R100, maybe another R100. The grocery retailers are making R3 on a R100 or whatever the number is.

10 So, it is not just about size and turnover and rental. What is your business? What are your margins? So, everybody has a different margin. So clearly, a tenant who has large space and low margins, he has to pay a lower rental than somebody who takes small space, selling jewellery for example or watches, where the mark-up is big.

MR KHUMALO: Am I right then to assume that from what you are saying, a bakery from Vosloorus, who has been there trading, say 10 metres away from the mall, he could never afford to be in the mall?

20 MR WAINER: No that is not true at all. That depends on or let us say he is trading 10 or 20 metres away from the mall. He is in a little shop somewhere. He is not paying a high rental but maybe he does not have a very high foot traffic. So by him going into the mall okay, if he is doing a R1000 per month turnover, he might be doing R8000 or R10 000, by being in the mall. More for traffic, if his product is right and we and I am sure many...

30 The problem we have in South Africa with malls and you have been to malls, is everyone is the same, okay. You have got Edgars. You have got Mr Price. You have got Checkers or you have got Pick n Pay. You go when there is very little that makes more aid and more be different. What makes it different, okay and the difference you look for, are the small

tenants, the baker you are talking about. So you want to encourage that guy if he is good to come and be in your mall because that is the point of difference, okay.

So if you have a look and I am not using this as an example but if you look at Melrose Arch, now they are putting in a baker pause. You cannot get into the place because it is different. How long will that last and I am not saying the guy in Vosloorus is paused but if there is somebody who is doing something well and good, no matter how well and good he is doing, stuck away somewhere, he will do better in the mall and if he has got a reasonable landlord, who will try and accommodate him because that is what we look for, continually, are tenants who can make a difference because otherwise it makes no difference. There is nothing to tell you, to go to my mall at Centurion or the one down the road because we have got the same tenants and the tenants are selling the same stuff.

CHAIRPERSON: Talking about making a difference, Mr Wainer. There has been a complaint that has come through to this Inquiry, with regards to the presence of shopping centres in the townships, in the rural areas and if you have been following the submissions. Both retail and as well as those who appeared before in these public hearings. Basically, the complainant is that when the malls came into the townships and rural areas, they came in and had a negative, a very negative impact on retailers around the area on the small end, independent retailers, located around the mall and these people were driven out of the market.

I mean as you know, you operating in these areas and have a fair understanding of how they operate. Mostly people would not be operating in this set-up. It would not have a

hold here and then open a shop, 20 kilometres away from where they are. They have business somewhere within the vicinity of where they live and therefore when they are driven out of the market, naturally find their way back to actually sell whatever they selling and as a result of this there has been a proposal to ask an inquiry to try and see if, to try and persuade both the retailers to do something about the situation because I will speak to the developers and I want to tell you what the impact is by retailers.

- 10 That the malls or the shopping centres try and accommodate some of the players that are coming from the community, who are very, who are conscious of the fact that they cannot afford the type of rentals that you charge and should there be some percentage allocated to these entrepreneurs in the area, just to keep that market going and growing?

MR WAINER: Okay.

CHAIRPERSON: And at what extend is Redefine doing this or you are doing it?

MR WAINER: So let me first say, I understand this 100%.

- 20 CHAIRPERSON: Yes.

MR WAINER: My background is my parents had a little grocery shop in Yeoville.

CHAIRPERSON: Yes.

MR WAINER: Equivalent, a tightly bigger than a spaza shop.

CHAIRPERSON: *Ja*.

MR WAINER: And we did very nicely. We lived reasonably. In early sixties, came the advent of self service. OK Bazaars was the dominant one.

CHAIRPERSON: Yes.

- 30 MR WAINER: Suddenly, we had this proliferation of self service. In those days, it was a little grocery shop. People

telephone. They gave the order. You wrote it down. You picked it. You put it on a bicycle and you deliver it.

CHAIRPERSON: Yes.

MR WAINER: Now, you are doing exactly the same thing on the Internet. We have gone back.

CHAIRPERSON: [Laughs].

MR WAINER: So, this is what happened. So then we had an OK Bazaars. We then had Checkers coming in and we had this tiny little grocery store and work then.

10 CHAIRPERSON: Yes.

MR WAINER: Okay, I worked in this business. So what happened, is all the little retailers got together and that is how Spar got formed. Spar was a buying association. Where the wholesalers, who were supplying us, said okay, your business too thin, we have got to see that you can buy better. So that you can compete on price and that is how Spar came. So we became a Spar shop.

CHAIRPERSON: Yes.

20 MR WAINER: So, I do understand what these people go through but at the same time, competition means that you have got to sharpen your game.

CHAIRPERSON: Yes.

MR WAINER: We sat and I say this honestly and we were factors because we were supplying a service. We did not have, my customers were not going to OK Bazaars, in those days. Suddenly, I was selling and I still remember the prices, Frisco Coffee for 99 cents a tin and you could buy it at OK Bazaars for 79 cents and so we went,.. So we had to find a way to compete, okay.

30 CHAIRPERSON: Yes.

MR WAINER: In the townships, I think that there are some

fantastic entrepreneurs and I am meeting a lot of them in another initiative that I am doing.

CHAIRPERSON: Yes.

MR WAINER: But you sit there complacent okay, with no competition and quite honestly, rip people off because that is what you have got and I also know that there is a big complaint that some of the foreign nationals, the Ethiopians are much more efficient. They are selling stuff cheaper because they are more efficient. I do not know if they are
10 more efficient. They have got a buying thing or if they buying stolen goods. I do not know what it is but they are more efficient.

These people have to get more efficient. In our malls we incorporate walker stalls, okay. We have got place for walkers to come in. We are happy to find, if there is a tenant or somebody, who has got something unique. I am doing something different. We as Redefine, I cannot talk for ... We will give that person a break. We need those people.

CHAIRPERSON: *Ja*.

20 MR WAINER: We need people to make a difference. If somebody can come in and sorry that is the other thing about exclusivities that if I can just come back to.

CHAIRPERSON: *Ja*.

MR WAINER: The world is moving so fast. We do not know what is going to be sold in five years time and exclusivities are and I want to give you one example of how people can get caught because I have been in this business a long time. When Eastgate opened, Liberty not me.

CHAIRPERSON: Yes.

30 MR WAINER: There was a shop that sold luggage, Diplomat. They are still around and their exclusivity said that we have

got an exclusivity on leather goods, okay.

CHAIRPERSON: Yes.

MR WAINER: Then they let a shop because Bedfordview in those days, people rode horses. So they rented a little shop to a guy who sold saddles for horses. They were now in contravention of the exclusivity.

CHAIRPERSON: Yes.

10 MR WAINER: And for every saddle that guy sold, Liberty had to pay Diplomat the difference, the profit. Now, you do not think as landlord. As I say, cell phones, who knows what is coming next and we can be in contravention of exclusivity because we never ever thought it would because who ever would thought that game will not sell groceries.

CHAIRPERSON: Ja.

MR WAINER: But they did. I mean, Game always sold potato chips and sweets and chocolates. So where is the line? I do not know but these are issues for us because we now have for example in centres. Game has said okay, if you do not break this exclusivity, we not going to renew our lease, okay.

20 CHAIRPERSON: Ja.

MR WAINER: If Game does not renew the lease on that side of the centre that impact the small tenants around them because we are going to have a 2000 or 3000 square metre empty shop, okay.

CHAIRPERSON: Yes.

MR WAINER: So nobody is going to that side of the centre but we have got tenants with leases outside Game Store, okay small tenants and if nobody is going down that side as the draw, those tenants will go bust.

30 CHAIRPERSON: Yes. Okay so, on my question, you are saying you already doing this?

MR WAINER: We do this. We are looking for people, okay. We encouraging people. We have got something different, okay.

CHAIRPERSON: Yes.

MR WAINER: We need to because if trafficking is not growing, we have got too many shopping centres, as it is. So, we need a reason for people to come to our centre, okay. Whether they are the best hairdresser in the area. Whether they making fantastic vetkoek or whatever it might be.

10 CHAIRPERSON: Yes.

MR WAINER: We need somebody who says, I am going to go there because I like there donuts or that is me but whatever it is.

CHAIRPERSON: Yes.

MR RICE: Sorry, just to add to that.

CHAIRPERSON: Add.

20 MR RICE: We do it and in fact it is a matter of cause, where ever we can, we will put walker stalls, which are lockup at a much cheaper price. Even at the entrance of large shopping centres.

CHAIRPERSON: Okay. We will take note of that and just the last point from me. We had in the questions we sent to you, a question on a broad range of things that we thought financiers sustains, may impact on this area for retail, property developers and that having a bearing on the retail. Are there things that you want to point out that you think, for example, do they influence who becomes an anchor tenant? Do their decisions have a bearing on this, on the tenant mix at all?

30 MR WAINER: Okay. So let me start of by telling you what my late grandmother used to say about bankers. She said they

were crooks in suits.

CHAIRPERSON: [Laughs].

MR WAINER: So, what we have with bankers okay, is they will fund a shopping centre. Do you like that?

CHAIRPERSON: [Laughs].

MR WAINER: I like it. [Laughs]. So they, we have the bankers who have a look at a shopping centre, being developed or existing. They look at the cash flow and they say okay, we value this at R100 million and we give you R60
10 million or R65 million but in addition to that, they have a loan to value ratio cover.

CHAIRPERSON: Yes.

MR WAINER: So that shopping centre gets valued every year. If you get vacancies or your shopping centre is not performing, you value drops, let us say, from a R100 million to R85 million. The bank then says, hang of 60% of R80 million or R85 million, is now R55 million, per year.

CHAIRPERSON: Yes.

MR WAINER: So we have got to remedy that. If you do not
20 remedy it and that is irrespective of the fact that your rental might still be sufficient to cover the bond payment.

CHAIRPERSON: That is the ... [intervened].

MR WAINER: To service the interest.

CHAIRPERSON: Yes.

MR WAINER: So the bank will then come and use that as a lever and say, okay you are in breach but sorry, I am still paying my interest. Yes, yes but you are in breach. So, your interest rate now because it is a higher risk, is not 10%, it is 11% or 11.5%. So, the one thing that I have learned in
30 life, banks do not loose.

CHAIRPERSON: Yes.

MR WAINER: Okay. They just cover themselves.

CHAIRPERSON: [Laughs].

MR WAINER: Do not laugh. It is true. [Laughs].

CHAIRPERSON: [Laughs].

MR WAINER: They cover themselves. They are conservative. They generally do not influence the tenant mix but they have to be satisfied with it, particularly in a new development. So, if you went to them with a new development and you did not have a grocery anchor, they would not fund it.

CHAIRPERSON: Okay. Thank you. Thank you very much Mr Waiver.

MR WAINER: Pleasure.

CHAIRPERSON: And Mr Rice and thanks Ms Chetty. We will take note of this and then please, do take note of the questions that we asked you to follow up?

MR WAINER: The submissions.

CHAIRPERSON: In writing yes and should you have anything else that you want to add to and should we have further questions that arise out of this because we still have, we have got Msingita that is coming now and then we have got three other players, two other players on Monday and there will be more submissions that we would probably arise out of these public hearings. Should there be further questions ... [intervened].

MR WAINER: That needs to be answered.

CHAIRPERSON: We would like you to answer those.

MR WAINER: Just in closing, what I would like to say is that we had tough times South Africa, all South Africans.

CHAIRPERSON: Yes.

MR WAINER: We need to create opportunities for as many

people as possible, okay.

CHAIRPERSON: Yes.

MR WAINER: It is very, very difficult; it is hard enough for people out there to start a business. To get sufficient capital and then to find that we have restrictions okay, on through exclusivities. It just makes it much more difficult. I cannot think of many areas or anything where exclusivity is warranted but I think it should work in reverse. So if there was a compelling reason for one of the grocery retailers,
10 who are going to some area and they say, listen, we really need... In order to come into this area, we need exclusivity; they should have to come to Comp. Comm.

CHAIRPERSON: Yes.

MR WAINER: To get permission for it. Not the other way around and us try to get it removed.

CHAIRPERSON: Okay.

MR WAINER: We had many instances in acquisitions that we have made, where the commissioner has asked us okay, we giving you permission to acquire this portfolio, this but use
20 your best endeavours to get an exclusivity clause removed.

CHAIRPERSON: Yes.

MR WAINER: I do not think we had one success. Have we?

MR RICE: No, none.

MR WAINER: We have not had one success.

CHAIRPERSON: Yes.

MR WAINER: So, it should be the other way around. If they really and truly believe that they investing money then let them come and say, I need exclusivity in this area because generally speaking, there is competition all around.

30 CHAIRPERSON: Ja.

MR WAINER: So and if it is in an area where there is

nothing, well then justify it. Thank you.

CHAIRPERSON: Noted. Thank you very much Mr Wainer.

I think the other questions that we may follow up on, would be questions on market definition and various effects that different sizes of malls and types of malls have on each other. That is possibly something that you might follow up on.

MS CHETTY: Would you need that in writing?

CHAIRPERSON: In writing, yes.

10 MS CHETTY: Thank you.

CHAIRPERSON: Thank you very much.

MR WAINER: Thank you.

MR RICE: Thank you.

HEARING ADJOURNS

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