Retail tenants turn to renewables to keep their doors open

By Malcolm Horne

22 Jun 2023

With major retail supermarket giants spending tens of millions of rands per month on diesel for their backup energy generation, collaborative efforts and innovation are needed to weather the energy crisis in South African shopping centres and ensure that trade continues regardless of the load shedding challenges.

Malcolm Horne, group CEO of Broll Property Group

The recent South African Council for Shopping Centres (SACSC) Retail Trading Index Q1 2023 Collabinar highlighted the plight that most shopping centres in South Africa face - keeping their tenants' doors open during bouts of load shedding.

While shopping centres are seeing increased thoroughfare, there is an alarming inflation in gross operating costs, with the retail cost-to-income ratio increasing to 45% compared to 37% in 2018.

It is becoming more expensive for tenants to occupy space as electricity constraints continue to affect the ability of landlords and tenants to operate effectively. So much so, that insights by MSCI - a global provider of real estate indexes - indicate that 29% of a tenant's overall operating costs are assigned to electricity. As landlords are required to recover 100% of electricity usage, the increased economic pressure on tenants has resulted in landlords being unable to increase rental costs.

With the likes of Shoprite spending R100m a month on diesel and Pick n Pay spending R60m a month across their respective national footprints, the impetus to steer away from diesel-based energy generation is becoming increasingly important for tenants to stay afloat.

Fluctuating diesel prices

Managing the efficiency of diesel generators is challenging and has resulted in running costs ranging from R10 up to as much as R20 per kilowatt hour. Coupled with fluctuating diesel prices, ensuring an adequate diesel supply appropriate to the ever-changing load shedding schedule, increased maintenance costs, and the eventual replacement of generator units make diesel generators an inadequate solution to energy generation on a commercial scale.

Tenants are now querying the recovery costs associated with diesel usage, with the majority finding it unmanageable to absorb. This has placed increased emphasis on tenants reevaluating their total cost of occupation and looking for ways to reduce this figure.

While landlords have a responsibility to their tenants to ensure power to operate, tenants must become more deliberate in the monitoring of their energy consumption and be as economical in their usage as possible.

Signet Terrace Shopping Centre's new solar plant to generate 136MWh of clean energy annually

13 Jun 2023

Energy management solutions bring cost savings

Solutions, such as energy management systems, have proven their worth in reducing unnecessary energy consumption, while improvements can also be made by manually altering how a store consumes energy.

This includes changing the behaviour of employees in stores and implementing additional ways to curb their electricity usage, such as switching off the electricity entirely once the store closes (if viable), reducing the need for air conditioning during winter months, or increasing the temperatures of air conditioning systems slightly to reduce the energy required to generate colder air - a practice that can see a 40% to 60% saving in energy consumption.

The implementation of innovative technological solutions can unlock efficiencies and has seen many get ahead of the curve and make their properties as self-reliant as possible.

The alternatives

Apart from solar generation, which provides significant long-term economic benefits, the introduction of gas-converted generators is proving a cost-effective solution, costing only R4.25 per kilowatt hour.

Tenants can also investigate the viability of thermal storage as opposed to cold storage facilities that can reduce energy consumption by 20% to 25%. Furthermore, the likes of smart meters for water and sensors for lights and equipment have proven effective in dramatically reducing energy and water consumption.

Broll's Energy, Water and Sustainability (EWS) division recently halved an organisation's energy bill after it discovered an error with billing, while in another case, it saved a client more than three million litres of water after discovering leaks that regular leak detection methods missed.

Harnessing the potential of innovative technologies is key in the future energy supply to shopping centres and with generators posing a costly and environmentally hazardous alternative, long-term solutions such as solar energy will pay dividends in maintaining a continuous and sustainable supply of energy that will keep tenant’s lights on and doors open.

ABOUT MALCOLM HORNE

Malcolm Horne is group CEO of Broll Property Group. Horne joined Broll in 2003 as portfolio executive and was appointed group CEO in 2010 to lead one of Africa´s leading commercial property services firms, serving the investor and occupier markets across Sub-Saharan Africa.

- Retail tenants turn to renewables to keep their doors open - 22 Jun 2023
- #BizTrends2018: Sub-Saharan Africa real estate opportunities abound - 9 Jan 2018

View my profile and articles...