

JOHANNESBURG'S CHINESE MALL OVERHAUL: REVAMPING THE RETAIL MODEL

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SHANDUKANI MULAUDZI completed her Honours degree in journalism at Wits in 2013. As part of the class' final in-depth project on the Chinese community in Johannesburg, Shandukani investigated the mushrooming of Chinese-owned malls in Johannesburg and sought to understand how the retail model was adapting. She is currently working as Content Manager at *Finweek*.



Gam Saan is the informal name the first Chinese immigrants to South Africa used to refer to Johannesburg. Meaning 'Mountain of Gold', the city is where many still come to seek opportunities for a better life. The Crown Mines area is near Langlaagte, where the first of the Witwatersrand's gold was discovered. Although 66 mines that operated on the reef have closed, today this area has become a gold mine for those venturing into Chinese retail. Signs on Main Reef Road direct you to no less than eight different Chinese malls all offering an authentic Chinese shopping experience.

China Mall, Mart and Centre

China Cash and Carry, China Shopping Centre, China Mart and China Fujian City are all on the same block and right around the corner you can make your way to China Multiplex. To visitors who are not familiar with Chinese malls, they appear too similar. Beads, bedding, curtains, toys and other haberdashery stores leave one reeling from a sense of *déjà vu*.

In some malls, more attention is paid to clearly lit walkways, which are designed to make the customer want to spend time there, while many others have poor

lighting and narrow walkways. Whatever the lighting and flooring conditions may be, the lure of cheap goods and great deals cannot be ignored.

There is high demand for Chinese supplies in South Africa with about R70 billion spent on Chinese imports from January to June 2013, according to South Africa's Department of Trade and Industry (DTI). The DTI estimates that 785 million units of retail goods – stocked in Chinese malls – such as footwear, headgear and artificial hair, were imported from China in July 2013. The real number is higher though.

Some imported goods sold in these malls are included in different commodity categories. For this reason, the true figure is difficult to determine. The demand for these goods is high, but the number of malls has caused some market saturation and increased competition.

Steve Yeh, general manager and head of security at China Mart, believes the Chinese retail mall structure is effective as it offers "one single building where someone can get everything under one roof". Although China Mart could be criticised for having too many shops trading in the same goods, Yeh says in the end this results in the customer benefitting. "If they [shop owners] are selling the same thing, then they have to knock [down] their prices, right? So the customer benefits."

The Chinese way of property management

Robin Xu only had one container of Chinese imported goods when he arrived in South Africa. Xu was already a businessman in China before he moved here and his entrepreneurial spirit saw an opportunity to introduce Chinese trading to the Johannesburg community. When the old Makro discount centre in Amalgam burnt down, Xu acquired the vacant land and began building his first mall. Today, he owns three China Malls, each with about 500 shops and parking space for 3,000 vehicles.

In addition to the one in Amalgam, Xu's Sino-African Property (Pty) Ltd has developed China Mall West in Roodepoort, west of Johannesburg, and China Mall Durban. Xu's basic strategy has been to take old rundown buildings and transform them. The Roodepoort China Mall was formerly known as Highgate Mall, while the mall in Durban was called The Wheel.

According to Lisa Keyser, the manager of China Mall West, the China Mall group is the only family-owned Chinese retail node in South Africa. Keyser says the family-owned approach is in line with the Chinese belief in merging work and family.

As part of its diversified offering, Sino-African Property has constructed residential apartments situated behind the China Malls. "The Chinese like to live close to where they work. We have 100 units with about 400 people living there. It's convenient because this way our tenants just come, do their work during the day and then they just close up shop and go upstairs," she says.

Unlike traditional retail property groups, Keyser says the China Mall group offers sectional title ownership. The property is in such high demand that there is a three-year waiting list for space within China Mall. Keyser says one of the main challenges their tenants face is the fact that they do not have identity documents and cannot open bank accounts as 'natural persons'.

South African law states that it takes five years to be recognised as a permanent resident. In order to help their tenants deal with their banking problem, the China Mall group contacted the South African Revenue Service (SARS). They were told that if their clients were registered as closed corporations, they could get business bank accounts and official documents allowing them to trade easily.

Keyser says by selling sectional titles, they were able to share risk and also deal with fewer clients. The people who own sectional titles can sub-lease their property to small business owners, but other tenants do not have that privilege.

"We offer in-house bonds for our clients who want to



China Discount Shopping Centre in Randburg, Johannesburg.

own sectional titles as some of them are unable to secure bonds with the banks. Our interest rates are higher than the banks as the risk is high for us too," Keyser says.

Yeh says China Mart offers sectional titles too. The owners of China Mart are sectional title holders of different nationalities and cultures. "We started building in 2002 and completed in 2004. Today this place is under about 120 sectional title holders. Basically there was an advertisement asking who was interested and a whole lot of people came together, chucked in some money and built the place."

Erwin Pon, business development director at Rand Merchant Bank, explains that this opportunity to purchase a section of land within Chinese malls sets these nodes apart from the more common retail model.

"By doing this, they create a bigger demand for space within the malls for those people who want to own their own property."

Pon believes that this was a smart decision by owners of Chinese nodes as they understand the desire people have to own property rather than rent forever. Shop owners then have something they can call their own and work harder to keep their assets afloat.

Although this method of ownership works for Chinese retail nodes, Senzo Mncadi of Propertuity Ltd, the development company for the Maboneng Precinct in Johannesburg, says selling retail spaces is not an option for them.

"One thing about the China Malls that you may have noticed is that they sell the same things and we cannot have the same kind of thing happen here. In order to maintain control over that we cannot sell retail space," he says.



The interior of China Mall Amalgam in central Johannesburg.

Maboneng is an urban space in the Johannesburg inner city comprising boutiques, eateries, markets and residential buildings, all developed from abandoned buildings.

The need to diversify and differentiate

Keyser believes China Mall was the pioneer of Chinese retail. “When we started, we were the only ones in our area doing this kind of thing [Chinese retail and wholesale] so we did not compete with anyone else. Now, with so many other malls in the area, we need to find a way to be different. They call themselves China Mall but we own the trademark,” she says with a smile.

Pon agrees that one of the challenges for Chinese retail development is differentiation and diversification. He says the market must adjust and develop to keep up with changing trends and increasing competition and adds that some owners of these nodes have already started developing plans.

“Currently some property developers are evolving and realising the need for upmarket malls. As far as I know the owners of Dragon City have purchased a space and are looking into developing the ‘Sandton’ of China Malls.”

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Yeh says in the future China Mart would like to move towards building a mall that could be likened to Cresta or Menlyn Park in Pretoria. He explains that the target market and new business model will be determined by the location.

“Obviously this would take a lot of hard work and planning. Location is very important. We cannot go to Sandton, for example, and build a mall like this [China Mart] selling goods like this [cheap imports]. We will also limit the number of people selling one type of thing. Otherwise people will just start shooting each other,” Yeh says with a raised eyebrow and a smile.

China Mall has already decided to spice things up with a little diversity. Keyser says the goal of the mall is to attract not only local but international business too. The group has decided to introduce a number of well-known chain stores like Pick n Pay and Legit to their malls. This strategy has already been adopted in their Durban mall and Keyser believes it has already increased their customer base.

“What is unique to our group is that we are trying to have a fusion of local Chinese and international clients as our tenants. China Mall has gone this route because South Africa is so diverse. At the moment we have about 60% of our tenants who are Chinese and the other 40% is made up of people from Pakistan, Turkey, Vietnam and of course other South African locals,” she says.

People come to China Mall from as far as Botshabelo (near Bloemfontein), East London, Cape Town and even Mozambique, says Keyser. If you want to buy in bulk, this is the perfect place to be. Small business owners can buy wholesale items at a fraction of the stated price, which she says they call the stock price. This price is offered to wholesalers who buy six or more of a type of product for their stores. This is what she believes makes China Mall stand out from other South African malls.

China Mall in Amalgam is a 100,000m² piece of land with an outdoor parking space that caters for 3,000 vehicles. The shopping complex building takes up 40,000m² and is divided into four conjoined sections that are two storeys high. The different parts are marked alphabetically, showing the order in which they were built.

The first visible section when driving in is clearly marked C. Section A, which is the oldest, is on the far left. On the far right, close to the newly developed block D, but separate from the main mall, there is a sign that reads: ‘Food Court’. There are roughly eight Chinese restaurants, offering both halaal and non-halaal meals.

Red and gold Chinese lanterns hang from the ceilings, matching the main colour scheme of the China

Mall trademark. With about 50 stores at the bottom and additional stalls in the walkway, there are too many options to go through in one afternoon.

Keyser says the rent charges are dependent on the positioning of the store in the mall. If the store is closer to the front entrance, the rent will be more expensive than that for a store at the back of the mall. The leases are offered on a one to 10-year period.

The stalls in the walkways are referred to as 'yellow line stores'. Yellow lines are drawn to demarcate the space within which the owner of the stall can trade. If they trade beyond the yellow line they are in violation of their lease agreement, Keyser explains.

The emerging upmarket Chinese Mall

There are a handful of entrepreneurs who are looking to take the Chinese Mall model into new areas. On the corner of Republic Road and Jan Smuts Avenue in Randburg (Johannesburg) is China Discount Shopping Centre. Newly painted in red and blue, the building is decorated with Chinese markings.

Unlike the crowded Crown Mines malls, this mall is quiet. The parking lot, built for well over a 1,000 cars, is almost completely empty on an average day. Launched in May this year, the mall has more than 120 shops, many of them still bearing 'To Let' signs on the windows.

Angelique Ju, 26, the manager of China Discount Shopping Centre, says this location was attractive because there were no other Chinese developers operating there. "The malls in the Crown Mines are not running. There are too many, all grappling with each other. There aren't enough Chinese people in Johannesburg for that kind of competition so we wanted to be in an area where we sell to everyone," says Ju.

Although they have avoided the competition from similar Chinese nodes, the Centre has internal conflicts. Ju says the tenants are very competitive and steal one another's ideas because of their similar clientele. She has to deal with quarrelling and tenants who accuse each other of spying on one another.

Shop owners claim their competitors visit other stores and pretend to be customers while they suss out the competition. Ju says the tenants who visit other stores then stock the same goods in their own shops. "The tenants spy on each other. It has reached a point where they have signs stopping one another from entering. Now the tenants are getting smart and they send the people

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working in their shops to do their spying for them," Ju laughs.

The biggest problem is that many of her tenants have the same suppliers. The local retailers in the shopping centre are more successful because they import from various countries such as Dubai and even when they do import from China they get unique goods, she adds.

One developer who has already started exploring the higher end of the retail market chose the old Rivonia Square on the corner of Rivonia Boulevard and 9th Avenue in Rivonia as a prime spot for his development. Rivonia Oriental City is nestled among the clean streets of one of Johannesburg's most affluent suburbs. Consumers are welcomed by red flags flying high and elephant statues on each side of the main entrance.

The layout of Rivonia Oriental City is different from those in the Crown Mines area. The wide walkways feel like those in upmarket Sandton, but the usual search for mall parking space is not part of the shopping experience. Although the mall is not packed with customers, tenants believe it has potential.

Rose Zhang, 27, likes the fact that it is different from other Chinese malls she has worked in. Zhang worked at the Oriental Cities in Centurion, Pretoria and Bruma, east of Johannesburg. Even though she has only been working in Rivonia for two months, she says she prefers working there because of the variety in customers and store owners. "There are black shop owners here too, which is good because we are mixed. This is South Africa."

The mall has a Planet Fitness gym, an Ackermans, a Truworths clothing store and a Post Office. Having opened in May 2012, Rivonia's Oriental City is a baby that has the potential to develop. However, as a look into the crystal ball of Chinese malls in South Africa, the number of unoccupied stores and near empty walkways may reflect a bleak future for the rest who want to move in this direction.