

Rent puts more heat on restaurant sector

September 17, 2007

By Sibongile Khumalo

Johannesburg - Fast food and restaurant retailers are feeling the heat of the escalating costs of rental space, in addition to that of high food prices and expensive beverages.

Major food companies attribute the increases to the high cost of property.

Pierre van Tonder, managing director of Spur Corporation, said rentals had increased by between 10 percent and 15 percent in the past 18 months.

Van Tonder said the impact of rising food prices on customers had been minimised through prudent menu engineering and efficient procurement. Spur Corporation is the holding company of franchises for Spur Steak Ranches, Paranotti's and John Dorry.

Ivan Nitsche, chief executive of King Consolidated Food Services, said high rentals were a major problem, threatening the growth of the fast food industry.

"The effect of high food prices and high rentals is compromising the viability of franchises, as some retailers struggle with the increasing costs," said Nitsche.

The group operates more than 90 franchised restaurant, pubs and fast food outlets such as KEG, McGinty's and Saddles.

Commercial property firms said the increase in rentals was because of high building and service costs.

Eprop manager Lewis Moore did not believe that retailers were being overcharged, but said rentals depended on size and location.

"There are a number of factors that are taken into consideration when determining rentals," said Moore.

"Retailers in shopping malls are paying for security and other advantages of being inside secured premises. Space costs between R75 and R400 a square metre."

Wendy Alberts, chief executive of the Restaurants Association of South Africa, said members had formed a forum to discuss the escalating rentals.

"The issue is a countrywide phenomenon and it has forced some operators out of business. Some retailers have had increases of up to 40 percent of their annual turnover," said Alberts.

According to Statistics SA, the food and beverages industry generated R6.2 billion in the first quarter of this year.

Reineir Hattingh, general manager of Maxis, blamed the closure of two outlets in Midrand and Gateway partly on high rentals.

"There is a need for a strong united voice to help address the problem," said Hattingh. "Retailers are already battling the effects of inflation and now we have to deal with space problems, and the landlords are not prepared to negotiate."