

# Mid-Sized Independent Retailers Group formed to save the 'missing middle'

More than 50 South African retailers have banded together to form the Mid-Sized Independent Retailers (MIR) Group. The task team has a limited mandate to deal with the survival of medium-sized non-essential retail tenants during the Covid-19 pandemic with the primary objective of avoiding the permanent closure of these businesses.



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According to newly-formed group, SA's Covid-19 lockdown and risk-adjusted strategy are threatening the survival of non-essential mid-sized independent retailers who are finding little long-term respite for their business operations and overall liquidity.

The list of MIR Group members includes the Cape Union Mart Group brands, Hi-Tec SA, Toys R Us, Bargain Books, Under Armour, Fashion World, Carrol Boyes, Cellucity, Exclusive Books, Coricraft, Dial-a-Bed, Computer Mania, Crocs, Trappers, Choice Clothing and BT Games.

The majority of the members exceed the R80m annual sales threshold defined by the DTIC for SMME classification purposes, but are not considered "major national retailers". These medium-sized retailers account for approximately 2,300 stores in South Africa and support more than 21,000 direct employees.



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Lauren Hartzenberg 30 Apr 2020



The MIR Group is represented by Jonathan Kingsley-Hall of JKH Consulting, an outsourced property department to approximately 20 retail brands. According to Kingsley-Hall, the treatment of mid-sized independent retail tenants cannot be identical to that of national listed retailers because they do not have the same liquidity, access to capital or economies of scale.

"We are most concerned about the year ahead after the lockdown. Limited movement, social distancing and constrained trading will be a reality until a vaccine is commercially available. The majority of retailers we represent generated sales in the week preceding the lockdown in March that were sharply below the same week in 2019.

"This poses an extremely high default risk for thousands of retail shops after the lockdown is lifted, if they are to try to meet the terms of their existing lease agreements," he says.



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## MIR framework

Given consent by the DTIC to organise and negotiate for the survival of its industry, and recognised and approved by the government in terms of the Covid-19 Block Exemption for the Retail Property Sector 2020, the MIR Group is not a tenant association or a brokerage firm that seeks to negotiate and restructure each lease.

In its terms presented to the Property Industry Group (PIG) on 17 April 2020, the MIR Group has advised that all MIR Group tenants need a rental relief deal that incorporates the key principles of the MIR Framework:

- The pandemic is not a short-term problem and is expected to peak in September and any relief package must reflect this reality
- The period of rental relief needs to span a period of 6 months or more for their businesses to remain sustainable and for tenants to avoid business rescue or liquidation
- The rental needs to be turnover-based and underpinned by a minimum guaranteed rental that may be negotiated between landlord and tenant
- All specific percentages and other terms must be negotiated directly between landlords and tenants
- MIR Tenants will continue to pay rates and taxes and utilities without exception



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## The "missing middle"

"Landlords may not understand the extent of the financial fragility of the 'missing middle' (MIR retailers with annual turnovers greater than R80m) because they have sticky fixed costs and operate head office and distribution centres that depend on

recoveries from stores.

"The recent ratings agency downgrade and the sharp depreciation of the rand has increased the cost of imported goods by 30%, which will have a multiplier effect on net profit margins," says Kingsley-Hall.

He continues, "Many of the formally employed will be temporarily or permanently laid off and many informal workers have no disposable income. The already flagging retail sector will be in a state of depression for several months or even years after the lockdown.

"The approach taken thus far by the PIG lacks tenant engagement and the foresight on the frightening reality facing the retail industry. A collective 'out of the box' effort to ensure our collective survival is urgently necessary to avert a disaster."

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