

## Futuregrowth partners with 27 Boxes on its developmental journey

Author: Paul Semple, Head: Unlisted Credit; Nicolaas Erasmus, CEO: CGES Group Ecosystem Services

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INVESTING IN DEVELOPMENTAL ASSETS is like a marriage – they perform best if you are in it for the good times and the bad times, and the best interests of both parties should be aligned and considered at all times.

At Futuregrowth, we invest with a long-term partnership mindset when investing on behalf of our development funds. As a funding partner, we remain very close to our deals as long as we are invested. Our investment team works closely with the management team to ensure they have what they need to become a healthy and sustainable business, as well as a positive contributor to the community that surrounds them and the broader economy.

### Unique retail innovation

Nowhere are the benefits of this approach more evident than in the investment we made in 27 Boxes, an innovative and unique retail centre situated in Melville. The development was unlike any other in that it was built using containers, where tenants could conduct their business and sell their wares to the public. Given the relatively small size of the trading spaces, they lend themselves to small entrepreneurial tenants.

Today the centre is a diverse, fully occupied and vibrant retail space. But it hasn't always been that way. Twenty-four months ago, 27 Boxes was on the verge of failure: empty, with no foot traffic or business taking place.

Following a comprehensive relook at the marketing and turnaround strategy for the asset and as a measure of the newfound success of 27 Boxes, during the lockdown the management team managed to sign up 30 tenants, which included re-signing existing leases and new tenants signing up for the first time.

A vital component of the centre's success during one of the most challenging economic periods in decades is that people have been shopping closer to home. 27 Boxes has benefited from this because it is a community centre, situated conveniently close to residents of Melville and surrounding areas. Also, a large part of the activity happens outside, with the centre hosting regular artist and maker markets, with different themes, on weekends.

### The investment case

#### KEY CRITERIA TO ASSESS A BORROWER'S CREDIT RISK



From Futuregrowth’s perspective, the investment now satisfies the core criteria we consider before investing in a development asset. For a start, the numbers have to make sense, and we rely on our 20 years of fundamental credit analysis and management to ascertain whether the targeted investment needs to prove it has sufficient cash flow to service the debt. Ultimately this is our investment goal and is thus a key priority.

Also critical is that we need to be satisfied that management has the expertise and skills to manage the asset. Provided management are open, honest, and committed, we will support them through thick and thin and help them keep the business alive. However, we do expect the shareholders to have their own money invested so that their interests are also closely aligned with the fortunes of the business.

We prefer to invest in assets that have a track record, even if it is a young business, and want to see evidence that the business proposition has growth potential. We see ourselves as funding partners that can invest in businesses that are small and support them along their growth trajectory. We get to the nuts and bolts of our investments by regularly interacting with the people who manage them, rather than making an assessment on paper, investing, and then forgetting about it for five years until repayment is due.

But as a committed long-term investor, not a service provider or bank, we have feet on the ground and are willing to devote dedicated, ongoing attention to the assets in which we have invested; seeing them through the tough times if needed.

## Turning around 27 Boxes – a management perspective

27 Boxes is a distinctive village centre with no national anchors and premised on the meet-the-maker model. Since completion of the development in 2015, the centre has gone through several ups and downs to the point where it nearly went under. It was ultimately redeveloped in 2017/18 when Futuregrowth took over the full ownership of the management business, CGES Group Ecosystem Services, and appointed a new management team.



Headed up by Nicolaas Erasmus, CEO of CGES Group Ecosystem Services, together with the centre manager, the new management team converted the 2-metre shop fronts of the 6-metre-length containers into more inviting spaces. Then it focused on achieving the right tenant mix.

**Says Erasmus: “We don’t consider ourselves landlords. We operate more on a partnership model. When we interview tenants, we want to see a concrete business plan and a management team that has the skills to secure a predictable earnings stream.”**

Previously the centre was dominated by clothing manufacturers. Now the tenant mix is far more diverse, from online retailers wanting a physical footprint, to bakers, dark kitchens, a food incubator and a maths school. The centre also hosts alternating weekend markets that Erasmus says are well-attended because they have consistency and diversity to them. They include a green market, a healthcare-oriented market and a vegan market.

He stresses that the ability of the asset owner, Futuregrowth, to adapt and change to market circumstances has been critical in securing the success of the centre. “The centre would still be stagnant if it hadn’t been for Futuregrowth’s support,” he says. Key to the success of the centre, according to Erasmus is that tenants must be able to contribute to what has become a self-sustaining ecosystem by complementing or collaborating with existing tenants.

## Spotlight on:

### **Wakanda Food Incubator**

Well-known restaurateur Miles Kubheka has established an innovative food incubator called Wakanda Food Accelerator programme in 2019. It provides a first entry opportunity to young chefs wanting to get into the restaurant industry. Wakanda provides a shared kitchen, combined with business incubation assistance and coaching, to help aspiring food creatives and foodpreneurs looking to build great food companies enter the restaurant industry. The uniquely food-oriented programme gives young entrepreneurs access and allows them to pitch products, to Miles and his team.

27 Boxes centre was chosen as a base of operations due to its proximity to both Wits University and the University of Johannesburg. Melville also has the most independent restaurants in one street, which gives the Wakanda incubates the opportunity to supply these restaurants with their products and services.

Wakanda decided to put their centre on a rooftop to show that they can place their centres anywhere provided there is enough space, access to water and electricity, and operate successfully.

### **Dark kitchens**

27 Boxes is home to two dark kitchens: a Chinese restaurateur who makes dim sums and Prima Piatti. Dark kitchens are being set up by restaurants to cater to the massive growth in demand for takeaways spurred by the pandemic. Restaurants were finding that catering for both the restaurant and UberEATS takeaway orders was putting a strain on their kitchens, and thus they have begun to set up so-called dark kitchens, which have no physical clients to attend to.

Dark kitchens, like the two set up at 27 Boxes, are pushing out the innovation curve and offering a sneak peek at what the future of delivering food could look like. The tenant who offers Chinese dim sums, for instance, has come to market without ever having a front-of-house or brand presence.

For more information on dark kitchens:

Read: [Deliveroo’s virtual restaurant model will eat the food service industry, as Amazon piles in to Fund U.S. expansion](#)

Visit: [www.ktchnrebel.com/dark-kitchen/](http://www.ktchnrebel.com/dark-kitchen/)

## **Maths School**

When the management team of 27 Boxes was asked whether one of the containers could be used to host maths lessons, the team gave the go-ahead for a trial run. Erasmus says although other tenants initially resisted the decision, it worked like a bomb and now the centre hosts a maths school that has taken up four new spaces.

The school has also had a positive spillover for other tenants in that they benefit from the everyday footfall of the maths students who buy coffee, lunch, and stationery. Tenants have also come to the party, negotiating preferential rates for their regular maths customers.

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