



## **Assessing The Financial Risk of a Shopping Centre**

**Prandesha Govender and Chris Cloete**

Department of Construction Economics, University of Pretoria, South Africa

### **Abstract**

The objective of the paper is to develop a tool for the evaluation of the financial risk of a shopping centre. Important factors that indicate the success of a shopping centre were identified from the available literature. Weights were allocated to these factors and a risk rating was calculated for 505 shopping centres in South Africa by taking the factor scores, factor weights and category weights into account. The ratings for 10 randomly selected shopping centres were correlated with consumer feedback and standardised against the ECAI (External Credit Assessment Institutions) data for the same centres. The ratings were also mapped to corporates with the same risk rating to provide a better intuitive assessment of the meaning of the inherent risk of each centre. The proposed risk tool shows a strong linear correlation with consumer views and can be compared to expert opinions, such as that of fund managers and REITs. Interpretation of the tool was also illustrated by correlating the risk rating of selected shopping centres to the risk rating of reputable and established entities. The proposed Shopping Centre Risk Tool, used in conjunction with financial inputs from the relevant centre, should prove useful to an investor when the desirability of investment in or expansion, renovation, or purchase of a shopping centre is being considered.

**Keywords:** investment, rating tool, rating scale, risk modelling, shopping centres