

Building spree sparks warning of space glut

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Although an increasing number of investors are showing strong confidence in the retail property sector in the mainland, there are exceptions.

Morgan Parker, the president of Taubman Asia, a unit of New York-listed real estate investment trust Taubman Centers, has warned of the abundant supply of shopping centres in the industry that were mainly built by inexperienced domestic developers.

"In the past three years, 100 shopping malls were built every year [in the mainland]. All are big in size from one million square feet to four million sq ft," Mr Parker said. "In any market, that is a big supply."

Mr Parker said retail centre owners were looking for deep reservoirs of retailers to fill up spaces. And many were facing low occupancy rates.

"My estimate is 90 per cent of shopping centres developed in the past three years are unsuccessful or unprofitable," Mr Parker said.

Taubman Centers, which has focused on shopping centres in the United States for more than 50 years, opened its Hong Kong office in July 2005, its first outside the US.

The company had identified the mainland, Japan, South Korea and India as its four strategic markets and had planned to buy majority stakes in newly completed shopping centres in first and second-tier cities.

So far, it has failed to reach a deal in the mainland.

"Our primary focus was on China.



Morgan Parker says most shopping centres do not succeed. Photo: Dickson Lee

But our focus is now shifting to other markets such as South Korea and Macau," Mr Parker said.

He said he had viewed more than 200 shopping centres but none was suitable.

Many offers had come from mainland shopping centre owners asking for help to revamp their projects. However, most of the problems could not be fixed as flaws were made in the planning stages, he said.

He also reckoned that the mainland consumer market was not ready for middle-range luxury brands.

Carmine Rotondaro, worldwide real estate director of Gucci Group, agreed. Even though Gucci's priority in Asia was the mainland, he said: "We are actively entering the market, but not aggressively expanding."

He added that it was not easy to find good locations in the mainland,

especially in second-tier cities. In the long run, however, both are optimistic about the mainland.

"In geographic terms, Asia is the key factor driving growth for luxury retailers. In seven short years, China will become the single-biggest luxury goods market in the world," Mr Parker said.

Taubman Asia made its first shopping centre investment in South Korea and the second in Macau, taking a 22 per cent interest in the retail component of the HK\$16 billion Macau Studio City in Cotai.

"With the significant amount of casino resort development under way, Macau has now become a major focus for luxury retailers. The reality is, gaming environments produce some of the most highly productive retail space in the world," Mr Parker said.