

The real estate hierarchy: Retail Space

where is retail space in the real estate hierarchy?

I have been a real estate developer and investor in pretty much every sector, hotel, industrial everything and I think retail is the most complex form of real estate. A PhD. In order of complexity it goes from residential to office, hotel and then retail is really the PhD of real estate. I am talking about the development more than the investment side here.

One way to differentiate retail real estate is by understanding it is a three-dimensional business rather than the two dimensional tenant-owner in other asset classes. We have a three-dimensional business, there is tenant, developer and consumer. For example, sitting here in an office building in Hong Kong it doesn't matter who is above me and who is below me. It doesn't matter who the other tenants are – we don't really interact. This allows a developer to develop on a speculative basis, it allows a developer to lease on a per sqf basis because it doesn't really matter what other people in the building are doing. Figures can be put together based on a comparable between buildings of a similar quality nearby.

as opposed to retail where you have to understand your tenant's businesses as compared to other tenant's businesses?

Yes, for example, I can't put Louis Vuitton next to a hairdresser. There are only a dozen retailers in the world that go next to Louis Vuitton.

Retail real estate is the only opportunity for me to get deep into the consumer world and the community around us. As developers of shopping centres we get to influence society and influence shopping trends. Understanding consumers in different countries requires a great deal of knowledge more than finance or design or facilities management.

how is Asia different to other parts of the world?

Malls in the US are more transactional based, in Asia you see a lot more blending of usages and blending of spaces. Other differences derive from the way people live their lives in the different markets.

Malls in Asia are not just nondescript venue with multiple stores, they are destinations where people choose to congregate and spend their leisure time, and it is this third-dimension, the consumer spirit, that makes retail real estate development so challenging. Morgan Parker, CEO, Taubman Asia explains why.

For example in the US ten to 15 percent gross lettable area will be designated for food and beverage establishments, whereas in Asia most developers put aside 20 to 30 percent. People here eat out for both lunch and dinner perhaps five days a week and much of this happens in the context of a shopping centre. We, as a developer, have to be cognizant of that.

In our projects you can see examples of this in the inclusion of entertainment within the shopping centre. For example in Korea, Taubman is developing a mall with an ice-skating rink that will be almost olympic sized in which the shopping centre managers will organise free entertainment for shopping centre visitors. In Asia developers have to take on more social responsibility towards people's leisure time.

Acknowledging this, what is the first step before embarking on a new project?

First off we need to assess the market by looking at the supply and demand for shopping centres. Supply is easier as it is just a matter of looking at what other malls exist or are planned for that geographical area, whereas the demand model is more difficult because it relies on asking people their future spending patterns in terms of how and where they will choose to spend their money.

We deal in the only type of real estate where the rents we receive are a function of the performance of the tenants. The relationship between retail sales and retail rents is called occupancy cost. Our rents are based on the spaces we create and the performance our tenants can achieve. So when we have done a good job planning, marketing and merchandising our shopping centres our tenants can afford to pay above market rents. That is a secret of great development.

what are the new trends that retailers are asking for? Double story facades, larger stores, blended usages? What's hot now?

The biggest trend now is towards larger stores, you've hit the nail on the head. This part of the world is one where there is tremendous potential for year on year growth. They don't want to under develop their stores and have a store that is right for today but too small for tomorrow. So if you can show that you are providing a good venue for them then they will commit to a larger store. Recently, we have been overwhelmed with the areas that the retailers are willing to commit to and the confidence they have in this market.

if you are interested in getting into retail real estate what should you understand and what would be your advice?



Real estate is one the few industries which is old economy and new economy. It is always a core foundation of society and the business world we live in. It is a tremendously broad and stable industry to participate in. I am also of the view that

one can come into the real estate industry in many different ways. You can come into it from a finance, design or engineering angle, or a sales and marketing angle. I started off as a lawyer but I found law and banking intangible and less satisfying than working on something that's tangible and physical and leaves an impression on the built environment that we live in and that our children will live in. It is hugely satisfying when you walk through a shopping centre and recognising that you were involved in shaping that space where memories and experiences are going to be created forever. That is a tremendous responsibility and a tremendous sense of satisfaction.

If someone wants to get into the real estate industry they should have an affinity and sense of connection. We at Taubman have been known to employ people with no real estate experience at all but have an affinity for it.

can you give an example of what you mean by affinity?

We recently employed someone from the recruitment industry who had never worked in real

estate but he had all the fundamental skills that you want in business, good communication and negotiation skills, critical thinking and judgement and is able to form relationships and networks and close deals. He also understood the responsibility you have as a developer and the value you can create for all the stakeholders in the creation of good real estate.

sustainability and green is a big issue. How about retail real estate? All those lights?

Yes, it's one of the top focuses for us as a company, particularly in the U.S. We have turned our attention to the environmental aspects and environmental impacts of developing large scale shopping centres. As a developer we are required to satisfy regulatory authorities of the impact that our shopping centre development will make on the environment around us. In Asia the legislative framework for environmental consciousness is not yet in place or if it is in place it is not yet rigorously enforced. That is something we hope will happen in the future. The focus in Asia is just building as quickly as you can with little regard for what's going on around you. We are trying to find a balance between the commercial objectives of the project and the environmental impact. You can find an alignment between a commercial objective and an environmental objective.

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what new trends are you seeing?

One of the universal trends taking place is the format of retailing and the different types of retail real estate such as department stores, shopping centres, hypermarkets, high street shopping. In many countries in Asia there hasn't been a full

compliment of those different options. In Japan and Korea the market is dominated by the department store type of retailing which has stifled other forms of real estate for retailing. We are finding that the shopping centre format has become universally accepted. This is a good development for consumer choice. The next generation will be lifestyle centres which will be in Asia in the future as well.

are there any lifestyle centres that come close to the U.S. model?

There are a few shopping centres in China that have looked at that model and are trying to replicate it. The reason they may not be successful is that there isn't the depth in the retail market in China. In the U.S. they are sitting on sixty years of retailing experience with an evolved market and thousands of retailers to choose from. In China the real estate model is getting ahead of the business model. It is a supply led boom where the real estate is being developed ahead of retailer and consumer demand. There is so much supply that it simply can't be filled. RFP