

Mall Magnate

American retail titan Taubman has a master-plan for Macao Studio City that puts malls on the mainland to shame. They'll be using a similar method in South Korea. And with all the major economies of the East. So says their Asia-Pacific President, Morgan Parker

Christopher Cottrell

Retailers might want to take a page from Alfred Taubman's book. Quite literally.

The 83-year mall magnate and one-time Sotheby's partner recently launched "Threshold Resistance: The Extraordinary Career of a Luxury Retailing Pioneer" at the Four Seasons in New York. At the soiree, he was toasted by the likes of Lightyear Capital's Donald Marron, Donald Trump and Henry Kissinger. It's not your typical business read. It talks about how a poor Jewish boy from Detroit became a billionaire and spent 9 months in a Minnesota jail in 2002-2003 on price-fixing charges at Sotheby's-Christie's. Indeed, the book is chock-full of business reflections by a man who has spent more than half a century forging America's most powerful shopping mall empires. Founded in 1950 in Michigan, Taubman (NYSE: TCO) rode the post-World War II boom that shaped American suburbia. By the 1960s he'd

expanded into California and locked up key venues in the US mid-west. By the 1980s, Taubman was penetrating the East Coast markets, with projects stretching into Florida by 2001. Today, they dominate Caesar's in Atlantic City, Vegas is theirs too. Now, they want in on the action in Asia. They opened the Taubman-Asia office in Hong Kong in 2005 and quickly cut a deal on Cotai. With President Morgan Parker heading their Taubman Asia venture, the company is writing a new chapter. *Macao Business* asked Parker about what's in store for their Asia retail recipe.

MB - Let's wind back the clock a bit. It's April 11, 2005. Robert Taubman officially announces that you're on-board and leading Taubman's charge into Asia. Given Taubman's dominant role in the U.S. market, how did you feel about heading their Asia operations at the time?

Morgan Parker - For me, joining Taubman represented a unique opportunity to create something: a business, a portfolio of world-class shopping centres that I could be proud of, a platform of fresh external growth for a US-listed company that already had a long, prestigious history, but was limited to the United States. It also presented a familiar challenge of taking a highly successful foreign company to the emerging markets of Asia — a region that has become the center of the world's attention, but is still so very different from the world around it. I joined Taubman because they were passionate about being the best, not the biggest. The company is focused like no other on making the retailers it accommodates the most successful they can be. This attitude of it being about their success and then ours struck at the core of my sensibility. Taubman being a true "developer" rather an investor or consolidator appealed to my fervor for a tangible outcome, the ability to influ-

ence and contribute to the built environment we live in.

You have a strong real-estate background, having worked with Morgan Stanley Real Estate Fund's (MSREF) across Asia. You've been around the Asia block for 10 years, with projects in Greater China, Korea, Japan, Singapore, Indonesia. In this regard, how do you view retail property investment in Macau over the next, say, three years, as Cotai comes online?

Having the context of a decade in Asia, I'm even more excited about Macau. I've seen markets rise and fall. I've seen good projects and not so-good projects. Many real-estate projects in Asia are ill-conceived and poorly executed. However, many have been saved by the sheer economic growth of the region.

The best projects are always the ones which have the right sponsorship, a solid location, a logical design, a keen eye on the end-user, and a lasting commitment to operational management. As a market, Macau is special because it's creating a critical mass of gaming, entertainment and leisure venues that are not easily replicated. Further, it has a geographic location that is truly central to half the world's population. It is a market that is not distracted, it knows exactly where it's heading, everyone is pointed in the same direction. Macau and Cotai's opportunity are unlimited; it will only grow in importance, sophistication and attraction. I'm convinced it will become Asia's number one tourism and leisure destination within a very short time-frame.

The Chinese mainland typically features giant shopping malls, such as CapitalLand's commercial building in Shanghai across from People's Park. Yet Taubman's retail plan for Macao Studio City only has retail on the first few floors. Why is that?



Morgan Parker

There is an accepted principle in the world of retailing that it is best done on or near the ground! It stems from an undeniable human preference to move horizontally and preserve optionality. There are a few exceptions around the world, but generally speaking vertical retailing doesn't work. At Taubman, we spend our time doing everything possible to reduce threshold resistance and maximize sight lines. Asking a customer to spiral up and down level after level of a shopping center to find retailers is not what we are about. The essence of a good shopping experience center is getting customers into stores and that is best done on one or two levels starting at the ground. At Macao Studio City we have worked tirelessly to create the most convenient and logical circulation system for customers. The clear benefit for retailers is that there really isn't any "weak" location within the mall. Each shop will have equal access to potential customers, not many other projects have achieved that, or even allowed themselves to aspire to such a standard. As for size, the giant malls of China are disasters and probably always will be. The sheer size means landlords are forced to allow just about any retailer to take space. This results in a confusing and incoherent experience requiring the customer to work hard to discover something that relates to them. Monster malls neglect the need to provide customers with convenience. At over 630,000 square feet, the mall at Macao Studio City has the critical mass to dominate the market, but is not so large to dilute the positioning and quality of the merchandise we will offer.

Speaking of Macao Studio City, Apple Computers might be one of your clients in Macau, if I'm not mistaken. Forgive me if this sounds like a naive question, but why would anyone buy a computer inside a casino, compared to, say, a Charmonde diamond necklace or Cartier wrist-watch?

The short answer is that customers will do all three. Apple has created one of the great retail concepts in the world today. We have a terrific relationship with them in the United States and would consider them a valuable tenant



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at Macao Studio City. However, it is premature to speculate that they will be in our project. Generally speaking, a retailer such as Apple, which generates a significant proportion of their revenue from the sale of small devices such as the iPod would be an ideal fit for the largely tourist customer profile of Macau. As for larger equipment, like computers, I imagine a retailer like Apple would ship the goods to customers wherever they are.

Correct me if I'm wrong, but isn't there a theory of marketing psychology, or something to that effect, that says that people who gamble (whether they win or lose) have a higher probability of shopping after leaving a casino? Can you explain this theory?

Integrated casino resorts are all about leisure and recreation. There is well established evidence that retail environments situated within integrated resorts are highly productive, much like retail

stores in large international airports. The success of retail in casino projects lies in the compelling synergy that exists between gaming and shopping. Visitors to casino environments are given fantasy fulfillment. Every aspect of their stay is about leisure and a break with routine. The excitement that casinos generate put people in a mindset to break free, to realise their dreams and act on their aspirations in a spontaneous way. When people win, they want to buy something "with the house's money". When they lose, they want to console themselves by taking home something tangible from their trip. Even people who don't participate in gaming are swept up in the emotion and stimulated to shop in a way they wouldn't dare to at home. So in essence the act of shopping becomes part of the leisure and recreational experience in a very meaningful way for all who visit.

Vegas and Atlantic City are places where Taubman already has a solid if

not profitable working relationship with casinos. Are you applying similar retail models Macau? How can you be confident that they'll work well in Macau, or Singapore for that matter?

In Atlantic City with the Pier at Caesar's we have the only genuine critical mass of premium retail in the market. It is a project that should remain a venue of choice for the world's leading brands for many years to come. In Vegas we are creating an equally impressive retail venue with MGM at Project City Center (the largest privately funded project in the United States), which will really create a new center on the Las Vegas Strip, and provide luxury retailers with their first opportunity ever to front the strip itself. At Macao Studio City we are applying all our experience from the United States, and these two casino projects specifically, but in a fresh and bespoke way. Every project needs to be treated differently to prop-

erly leverage the unique attributes of each location and retail opportunity. Having said that, there are many universal truisms in the consumer and retail world that can be applied every time. I think probably the most notable evolution at Macao Studio City is just how incredibly integrated the different elements are. The cross-fertilisation of possibilities that our plan creates are remarkable.

The mainland market is what most people talk about in terms of Macau's customers. Yet Taubman, with Macao Studio City, is looking beyond that to visitors from Hong Kong, Singapore, Australia, South Asia, etc., if I'm not mistaken.

The visitor profile of Macau is heavily weighted to Chinese mainlanders, which makes the merchandising of the mall at Macao Studio City that much easier to plan. Whilst we expect an increasing number of non-Chinese visi-

tors, the various nationalities and the impact on merchandising can be easily over-emphasised. The reality today is that quality international brands have global appeal. Our focus is providing a mix of premium and luxury retailers that will appeal to customers of all origin.

Thanks to recently publicised scams in Hong Kong, mainland travelers are now reticent to shop at certain venues in Hong Kong. As such, recent reports say that package tours to Hong Kong and Macau are down; that mainland travelers are now going it alone. How is Taubman taking this into consideration for their retail plans in Macau?

We always aim to attract customers on the basis of providing a superior experience through a better environment, merchandise and service. Our business model is not based on cornering customers through the peculiarities of group travel logistics.

Let's forget Macau for a moment. What's happening with the retail market in Japan?

Japan is a huge retail market, second only to the United States. On a per-capita basis Japanese spend more than any other group in the world. It's true that the Japanese retail landscape has been restructuring now for several years, and will continue to re-organise for years to come. They way it is changing only fuels our interest in the market. Despite its massive base of retail sales, it is still relatively under-supplied with retail space, particularly large-scale regional malls. The key to Japan is understanding how the composition of where retail sales are occurring is changing from one real estate format to another. The shopping centre format as we know it is relatively new in Japan, and increasing in popularity as the whole structure of Japanese society is changing.

According to the Q1 2007 results, Taubman has increased its ownership

of "The Pier Shops" at Caesars in Atlantic City. The report goes on to note another few paragraphs about "The Pier Shops". I can find very little news in the report about Taubman's profits in the Asia-Pacific. Why is that?

Taubman Asia was only created two years ago. Our business of developing shopping centres is one that demands considerable patience. In the United States we average about seven years to take a project from conception to opening. Already in Asia we have commenced development of two projects: Macao Studio City, scheduled to open in mid-2009; and Songdo International City (Incheon, South Korea), scheduled to open in early-2010. We are very happy with the rapid progress we have made in Asia.

On the Taubman website, there are a handful of job postings for the United States, but none listed for Asia. Given your expansion in this region, why aren't you hiring? Is it because all the labour you need is at your fingertips in Hong Kong?

When I started the business in 2005, it was just me and my trusty Blackberry. Now we have 20 employees located in Hong Kong and Seoul. By the end of 2007, I expect we will have around 30 in the team. We have a mix of nationalities within the team, including American, Australian, Korean, Italian, Taiwanese, Chinese, and Indian. We have recruited people from various industries and various locations around the world.

Speaking of labour, Macau has a limited pool of labour who can work in retail. How is this factoring into your plans for retail shops at Macao Studio City?

One of the key challenges for Macau is resolving its shortage of skilled labour. The focus to date has been the construction industry, and more recently in the hospitality and casino fields. As



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Macao's retail sector starts to expand this labour shortage issue will spread. Today retailers are absolutely focused on identification and retention of staff to operate their stores. Retailers are committing to significant training regimes to develop their staff in order to meet the high standards of service required in integrated resorts. We anticipate that by time Macao Studio City opens in mid-2009, many of the labour challenges will have been at least partially overcome.

Let me ask a more general question. What is Taubman's overall strategy for the Asia-Pacific market over the next five years?

Our strategy in Asia resembles what we have done over the last 57 years in the United States. During that time we have developed over 80 million square feet of retail space. The clear focus has been developing great shopping centres that work for retailers and delight customers. In Asia we hope to be able to open one new project each year from 2009 onwards. We will be targeting

high-productivity locations and markets where we see long-term growth prospects. We have a portfolio mindset as opposed to a develop and sell business model.

Where is Taubman's main aim in the Asia-Pacific region?

We are really focused on the larger economies of Asia, namely Japan, China, India and Korea. Additionally we tend to look seriously at opportunities in other markets if there are compelling deal economics, strong partners or pent-up retailer demand.

While I'm at it, you spoke at the 2nd Annual Macau Investment Forum. What was your impression of that event? What did you learn there that was useful for Taubman's Macau plans?

The two big topics of debate at the forum are indeed the right issues for everyone to be focused on: infrastructure/transportation development and the local labour shortage. These forums will become increasingly important as more investment occurs in Macau and the economy becomes more complex. For me personally, the forum highlighted the strong social awareness of the local Macau community and some of the issues facing that community as the city around it develops.

It's 2009. It's the opening ceremony of Macao Studio City. How would you locate Taubman's contributions to this project, development of Cotai and flowering of the new Macau? Building great projects is always a huge team effort; there are literally thousands of people involved in the creation of one shopping centre. The mall at Macao Studio City has become a success because of an enduring commitment to quality and prioritising the interests of retailers and customers. I'm very proud that the retail community has supported our project in the way it is, making it the clear for premium and luxury brands in Macau.

Q1 hotel frenzy

As of the end of the first quarter, there were 23 hotels under construction and 36 under official assessment, according to the Lands, Public Works and Transport Bureau. In total, these 59 hotels join the current range of 80 hotels in Macau, 11 of which have five-star ratings. The new hotels will have around 38,254 hotel rooms and 13,861 rooms to add to the current level of 13,049 rooms.

Macao Prime sees HK\$ 168 million spike

Macao Prime Properties, a real-estate investor whose biggest shareholder is Hanny Holdings, raised HK\$ 168 million in a recent top-up share. The firm issued 300 million new shares, which represent 11.27 percent of their enlarged share capital. The proceeds will be used for the company's working capital.

Praia sales up

More than 60 percent of the units at the Praia have been sold since the waterfront luxury property's presale last November. According to the project's developer New Tenhoo Limited, about 800 of its 1,288 units have been snatched up and prices have risen by 15 percent to HK\$ 2,600 per square foot on average. The project will provide 1,288 two-bedroom and three-bedroom apartments with areas ranging from 938 to 1,239 square feet, and will feature a two-storey aqua-themed clubhouse covering an area of 180,000 square feet that will offer a host of indoor and outdoor leisure/sports facilities. The Praia has been hotly sought after by local homebuyers, who account for 60 percent of its sales; investors from Hong Kong make up 30 percent of its clientele. New Tenhoo's CEO, Liu Hai Wan, believes the surge in demand for higher-end housing among the local population is in line with the booming economy and rising wages.

Macao to study Singapore property policies

The Secretary for Transport and Public Works, Mr Lau Si Io, recently visited Singapore to study its housing policies to help formulate a model for Macau. More specifically, the Macau government will be looking at Singapore's policies that give priority to first-time home-buyers in order to nurture nuclear families. During the five-day trip to Singapore, the Macau delegation also visited the Housing Development Board, Light Rail Transit, Land Transport Authorities and Urban Redevelopment Authority to sample lessons on infrastructural development and other issues of urban planning.

Kingsway Hotel to be remodeled

Hong Kong architect Steve Leung Chien and Riche Multi-Media Holdings have formed a HK\$ 200 million joint venture called Best Season Holdings Corp to redevelop Macau's casinos and residential buildings. The 383 room, 3-star Kingsway Hotel will be among the first projects to be tackled. It will be re-launched as a mid-range boutique hotel. Riche has also signed a letter of intent with China Star, a major stakeholder in the property. In March, Li Chi-keung purchased a 49 percent share of the Kingsway for HK\$ 308.7

million. Stanley Ho owns a 1 percent share. Ho's SJM-Investimentos (SJM) may build a 100,000 square casino annex with 50 tables next to the hotel on what is currently a car lot.

Mainland real-estate still loose

Despite the announcement of tighter regulations for property purchases by non-mainlanders, Chinese cities have yet to fully implement the measures, according to reports. Which means the field day continues for buyers from Macau, Hong Kong and Taiwan in cities such as Guangzhou and Shenzhen. It's been harder for them to buy in Beijing, though, which saw luxury apartment sales fall 12 percent. In Shanghai, residents of Macau, Hong Kong and Taiwan are not required to abide by a one-year-residence policy before buying, but are restricted to owning one single unit for personal use.

Capital Estate cuts HK\$ 160 million for Fortuna

Capital Estate recently announced a HK\$ 160 million deal to acquire an additional 22.5 percent stake in Macau's Hotel Fortuna. They plunked down HK\$ 80 million in cash upon signing the agreement with the owner, Tin Fok Holding. Analysts say the deal is a discount because the property was valued at HK\$ 990 million as of December 2006. Last year, Capital purchased 10 percent of the Fortuna. It will pay the remaining HK\$ 80 million once the deal is finalised.

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