The New Geography of International Retail Development

LeiriaShopping in Leiria, Portugal, opened its doors in 2010, registering 120,000 visitors in its first four days.

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FOR MUCH OF THE PAST decade, buoyed by a vibrant real estate market, readily available credit, and acquisitive consumers, international retail investors and developers enjoyed healthy growth, in both developed and developing economies. Now, in the aftermath of the global market downturn, developers—faced with an oversupply of retail square footage (especially at the high end), failing projects, and a cautious buying public—have been forced to reconsider their geographic strategies and retail models. Instead of glittering retail centers in Dubai or luxury boutiques downtown, the most promising retail development opportunities are in emerging economies with a focus on the midmarket.

According to "Windows of Hope for Global Retailers," the 2009 A.T. Kearney Global Retail Development Index (GRDI) report, while global retail as a whole is suffering, retail business in countries with emerging economies has potential. The GRDI report indicated that while the gross domestic product in the United States and the Eurozone is expected to decline, the BRIC (Brazil, Russia, India, and China) economies are positioned for growth, according to the Organization for Economic Cooperation and Development.

Cushman & Wakefield, in its March "Marketbeat" report on European shopping center developments, cited a sharp 19 percent decrease in new shopping center space in 2009 from 2008. Notably, it found development activity to be strongest in the two largest, still-emerging markets—Russia and Turkey, where some projects delayed because of the financial crisis have resumed.

Another area attracting the attention of developers is the Middle East and North Africa (MENA). In its April "MENA House View," Jones Lang LaSalle (JLL) reported, "Although the retail sector has not experienced the same levels of performance decline as other sectors of the Dubai real estate market, it is still undergoing a period of transition." Meanwhile North Africa, including Algeria, Egypt, Libya, and Morocco, is attracting attention. "Improved business climate in the region, lack of quality supply, and emerging local and international demand from key feeder markets are leading to various opportunities for investors, developers, and operators," according to JLL.

While China continues to offer opportunities for retail development, the building boom of the past few years has produced a glut of properties, not all of them well positioned for success. In February 2008, the *Asia Times* addressed the scope of the surge. "In the lengthy run-up to the 2008 Olympics in August, retail development has become a competitive sport in China's urban centers, with Chinese consumers acquiring a taste for Western-style superstores and exclusive, big-name brands," it reported. "Eager to cash in on the perceived spending spree, developers have been rushing to construct outsized shopping emporiums—China now has over 400 malls and large-scale retail spaces, with more than 20 currently under construction in Beijing alone."

In the same article, David Hand, managing director of the Beijing office of Jones Lang LaSalle, sounded prescient, saying, "In my view, only 10 or 20 percent of China's malls will realize their true profit potential. Poor management, poor location, poor design, poor choice of tenants, and the fact that these places are just too big and too pricey are all contributing factors."

Although Hand's judgment may well have been overly harsh, the fact is that while China's retail sector remains healthy, many properties need radical repositioning, and many of the newer developments are in second-tier cities where the retail businesses are integrated into mixed-use projects anchored by residential space. "In China, you have got to go with what the government wants you to do," Goodwin Gaw, chairman of Hong Kong–based Gaw Capital, pointed out in a January interview with Dow Jones Newswires. What the Chinese government wants is to provide housing in cities such as Chengdu, Dalian, Hangzhou, Nanjing, Qingdao, Tianjin, Wuhan, and Zhengzhou. Upgrading the housing of some 300 million people is part of the government-led shift away from the export-oriented economy of the past 30 years to a consumer-oriented, demand-driven economy.

Housing is also driving development in Brazil. Under the landmark 2009 policy "Minha Casa, Minha Vida" (My House, My Life), the Brazilian government has pledged to build 1 million affordable homes for low-income families by 2011 alone. Couple that with massive infrastructure spending related to the two major international sporting events on the horizon—the 2014 FIFA World Cup and the 2016 Olympics—and the already healthy retail market looks ever more promising.

How these trends translate into development plans is evident in the reshaped portfolios of leading retail developers. For example, Sonae Sierra, the Portuguese international shopping center specialist, is still developing in its traditional markets in Europe, having launched a major new center in Leiria, Portugal, in March, which opened at 100 percent occupancy and is already exceeding performance expectations. At the same time, the company is ramping up activity elsewhere. "Two years ago, we were projecting eight or nine centers for this year," says José Quintela da Fonseca, the company's chief design officer. "Instead, we are opening two. However, in Brazil we have three new projects and four major expansions underway, and we are moving forward with a new center in Craiova, Romania."

Ankara-based Renaissance Construction Development, a longtime leader in retail development and construction in both Russia and Turkey, has diversified its development plans and is actively pursuing projects in the Middle East and North Africa. Despite the financial crisis in Russia, the company is pursuing new business there, as well. In Turkey, the firm is continuing to build, completing four shopping centers and having nine others slated for completion within two years. Renaissance Construction also sees opportunity in the MENA countries. "We made a strategic decision to enter the retail markets in those oil- and gas-producing countries that have been introverted economically, such as Libya, Qatar, Saudi Arabia, and Iran," says Ozan Onal, Renaissance's design director.

Tim Magill, a partner at Hollywood, California–based 5+Design, who has been working with Renaissance in Libya, concurs with Onal. "In the post-Lockerbie era, there is so much need, huge unmet demand, few choices—and those are often of poor quality," he says, "The Libyan government is making substantial investments in infrastructure and encouraging development of housing, retail, and hospitality." Magill also sees opportunities in other North African countries, where relatively stable governments and a shared Islamic culture are helping them replace the United Arab Emirates (U.A.E.) as places to invest.

Reports from leading regional developers, such as Dubai-based Emaar Properties and Majid Al Futtaim Properties, support Magill and Onal's observations. At a recent press briefing, Majid Al Futtaim announced it is looking over 14 projects in the U.A.E., Oman, Egypt, Lebanon, Syria, Qatar, Saudi Arabia, and Yemen, which will take the firm's total gross leasable space from 8.1 million square feet (750,000 sq m) last year to over 23.7 million square feet (2.2 million sq m) by 2015.

In China, the large-scale developments underway today in second- and third-tier cities are benefiting from the lessons learned in the first wave of development. With housing at the heart of many of the projects, the focus is now on providing the emerging middle class with more affordable retail choices that serve the local demand—hypermarts and smaller shops rather than Gucci.

"We are seeing older developers who are returning to their home regions and towns with a desire to create something for the community, places of pride," notes David Moreno, a 5+Design partner, who is leading projects in several Chinese cities, including the satellite town of Qionglai, a poor but scenic city about 62 miles (100 km) from Chengdu. His firm is working with Sichuan Ruiyun Group, which has been given exclusive rights by the government to build and manage the town for 50 years. "In addition to midmarket retail, they are creating more amenities, parks, libraries, and other civic buildings as part of the development," adds Moreno.

Ronald Altoon, design partner at Los Angeles–based Altoon + Porter Architects, who has been working in Asia for many years, sees a similar evolution. While project development in China remains robust, the projects are more integrated, connecting civic assets to residential and commercial districts, notes Altoon, whose firm is working with Walsin Development Co. Ltd., a Taiwan-based developer in Nanjing. "With cross-straits trade a priority for the provincial and municipal government and for Walsin, we have initiated several projects in Nanjing, including 1 million square feet [93,000 sq m] of business-to-business retail that will support activities in an adjacent convention center and new Olympic stadium," says Norman Chang, president of Inserve, development adviser to Walsin. "Our development program is designed to capitalize on the massive current and projected commercial activity to the benefit of both sides."

If the modern retail center is the latest iteration of the traditional market—with branded boutiques replacing vendors' stalls—the Urban Market Company is turning evolution on its head to develop a new mixed-use concept. London-based retail investor and developer Milligan has joined forces with Bill Fulford and Peter Wheeler, retail entrepreneurs who started and still operate in north London the Camden Lock Market, an eclectic mix of market stalls, shops, studios, cafés, and bars. Together, they are making plans to roll out an expanded version of that market to other cities in the U.K.

The current Camden Lock Market attracts 10 million visitors a year and has seen a rise in the number of traders during the recession, even as other retailers have suffered. "The market model has tremendous appeal because it acts as an incubator for new businesses," says Milligan director Paul Hanegraaf. "With the strong sense of community that it engenders, we believe the market concept can be developed to include more workshops, studios, and live/work spaces."

Although Camden Market Lock's success is the inspiration for the new endeavor, Urban Market Company is quick to point out that the concept is not to clone the original. The design schemes will vary according to the site opportunities, yet in every one a central market will sit at the core, providing the nucleus for creative communities.

The team is targeting unique historic assets in a number of U.K. cities that already enjoy high tourist footfall, including Leeds, Glasgow, Bath, Bristol, and Manchester. While plans are in the preliminary stages of development, local city councils recognize the potential of the markets for regenerating down-at-the-heels urban districts.

The reconsideration of geography has prompted alterations to the traditional U.S. shopping center model that has long informed development worldwide. "Today, international centers are being designed to reflect the social and cultural life of the local society," says Phil Engelke, founding principal of AmazingSpace, a branding and design firm in Baltimore. "There's a focus on creating a copacetic social environment where the retail center functions as a kind of public living room."

Whether the project is a renovation of an existing center or a new property in Europe, Asia, the Middle East, or South America, center designs are being rethought to capture the distinctive rhythm and lifestyle of the local populace. Among the elements being reconsidered are the following:

▷ *Scale.* There are more small shops, smaller-scale spaces, mini-branded areas, and in-store boutiques. Family businesses and other small owners are still important in many countries where small shops are part of a mall's tenant mix. Central courts and wide corridors become more intimate gathering spaces with lobbylike seating, lighting, and architectural detail.

▷ *Food.* Food courts are being transformed with collections of cafés and small, high-quality, often local restaurants. "In Asia, people work long hours and commute in very heavy traffic; eating out makes sense," comments Altoon. "There are 100 restaurants in our Central World project in Bangkok, and they are all busy all the time."

▷ *Outdoors.* Using signature landscapes, open-air cafés, and roof gardens, retail centers are embracing the outdoors. "With land costs at a premium in many cities, especially in Asia, developers make the most of every square foot," notes Scott Rykiel, vice president of Mahan Rykiel Associates, a Baltimore-based landscape architecture, urban design, and planning firm. "The roof becomes an attraction with a garden, restaurant, or a play land."

▷ *New mixes.* As international retail centers have been increasingly integrated into the social life of cities, the mix of uses that make up the mall has diversified. It is not surprising to find a child care center, a health clinic, or a chapel in the tenant mix alongside the fashion boutiques.

▷ *Quality.* With more international developers intent on long-term ownership, they are investing in quality. From iconic architecture to high-end finishes and fixtures, the newest retail centers are designed to play a real role in the civic and social life of the community.

With the global economy slowly regaining its footing, there are—and will continue to be—many other examples of retail development underway. Still, the shakeout was severe for investors, developers, and retailers. What distinguishes these projects is that they are linked, directly or indirectly, to large-scale, government-led, government-financed mixed-use housing programs. These projects are not "designed as portfolio sales with no end-users," Onal points out. Rather, they have been envisioned as critical contributors to the social and economic development of these emergent nations.

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Manauara Shopping is a new, three-level regional mall in Manaus, Amazonas, one of the fastest-growing cities in Brazil. The project has eight anchor stores, a movie theater, a health club, and restaurants.

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