



The Great Mall Of China

By Daniel Allen

Retail Goes Big, Bold, and Beyond

Since 1978 the retail sector in China has undergone radical change. Store ownership has diversified considerably, increasing numbers of foreign retailers have been allowed to enter the country, and the majority of retail formats developed in Western economies have been introduced.

Every weekend Beijingers now flock to multi-tiered edifices of glass, marble and concrete spanned by countless escalators, enthralled by the bewildering number of brands, products and services on offer. Domestic and overseas developers have eagerly cashed in on the nationwide spending spree, investing billions in the creation of mammoth shopping centers in the capital and beyond.

China now has over 400 malls and large scale retail spaces. Five of the world's six largest malls are currently in China, and by 2010 that should be seven out of 10. The world's largest mall (soon to be exceeded) is currently the South China Mall in Dongguan,

Guangdong Province. With a mind-boggling shopping space of over seven million square feet, it is nearly twice the size of the Pentagon, the world's largest office building. In contrast, large retail space construction in the US is steadily declining—from 35 major projects at the turn of the 21st century to just eight projected for 2004 through 2006, and some malls are closing down.

The Foreign Factor

David Hand, Managing Director of the Beijing office of Jones Lang LaSalle, one of the world's largest commercial real estate service companies, attributes the boom in Beijing mall-building to a number of factors. "Obviously rising incomes and increased consumer spending are major drivers. Deregulation of the Chinese property market has also made it easier for foreign developers to operate here."

It's easy to see the attraction of China



Retail space construction, Beijing. by Daniel Allen

The sport of retail. by Lowell Bennett





Shanghai elegance. by Lowell Bennett

for western developers, as the supply of suitable sites in the West dries up. Consider the escalating figures. According to the Beijing-based Statistics Bureau, China's retail sales in August rose to 607.7 billion yuan (US\$76 billion), with total sales for 2006 expected to top 7.5 trillion yuan (US\$937 billion), up an extremely healthy 13 percent on 2005.

The gradual relaxation of government control over the retail sector has meant that more and more Chinese stores and malls are now being run by overseas Chinese and foreigners. Today a growing number of renowned foreign architects are being employed to add prestige and apply their conceptual skills to high-end, high-tech construction projects, which in Beijing often integrate retail spaces, offices and luxury apartments in mixed-use project.

The total opening up of the Chinese retail sector in January 2005, as agreed with

the WTO, gave fresh impetus to the influx, and has driven up demand for retail properties in both Beijing's core and non-core shopping areas. Gone were limits on retail outlet numbers, rules confining foreign retailers to large cities, and regulations capping foreign companies' stakes in local ventures at 65 percent.

Busting Out All Over

Bulgari, Ferragamo, IKEA, B&Q, Wal-Mart, Ito-Yokado, Carrefour and Costco are becoming household names to the ever more brand-savvy Chinese consumer. Richard Wang is Executive General Manager at Gulf-land Property Development, the firm responsible for the construction of "The Gate," a 120,000-square-meter mixed development in the so-called "West CBD" area of the Zhong-guancun district of Beijing. He comments,

"We wanted to create a destination, not just a building. All the tenants in our retail space were carefully chosen to reflect the fashionable, youthful, brand-conscious and lifestyle-oriented nature of our target consumers."

As is sometimes the way in China, inadequate planning and control has meant the rapid growth of outsized retail spaces is far from being problem-free. And the government is tightening up laws on retail real estate. David Hand states, "In my view only 10 or 20 percent of these new spaces will realize their true profit potential. When the market becomes saturated the poor performers will naturally find themselves squeezed out."

Richard Middleton, managing director (China) of Cushman & Wakefield, a direct competitor of Jones Lang LaSalle in Beijing, is a little more upbeat. "I think we have seen a very positive trend in the Chinese retail real



Beijing retail space architecture. by Daniel Allen

estate market over the last six months. An increasing number of Chinese developers are looking to enter into joint ventures with Western companies in order to benefit from the increased capital and expertise." Cushman & Wakefield are the leasing agent for LG Twins Mall, a recently completed up-market development on Beijing's Chang'an Avenue targeting hip executive businesswomen.

Counting on the Consumer

So, what does the future hold? Paradoxically, more and more Chinese are visiting Western-style retail spaces to buy Western brand-name products. And shopping is now a self-applied leisure therapy popular for shoppers on both sides of the Pacific.

It's not just a case of what Chinese consumers will or want to buy; however, it's also why they're buying the products that they do. Inextricably linked to China's rising GDP and standard of living has been the increasing number of Chinese with personal goals of self-satisfaction and self-expression. Instead of worrying about the taste (or availability) of the next meal, the increasingly affluent Chinese worker is preoccupied with the taste of life itself, and self-satisfaction is now a primary motivator in cities like Beijing, Guangzhou and Shanghai. The increasingly selective and street-smart Chinese consumer is neither complacent nor compliant, and rapid change has become the norm. For retailers and developers alike, profitable times may lie ahead, but there's still potential for miscalculation. One thing's for sure, the retail spaces of China will be bigger and bolder—and maybe better. ■

The gloss of retail, Beijing. By Lowell Bennett

