Shopping center development in China
- Current situation, challenges and solutions

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Abstract

In recent years, shopping center becomes a more and more hot discussed topic in China due to its rapid development crossing China. The new retail format has brought both new opportunities and challenges. By comparing to western developed countries and region, China has not been involving the shopping center development for quite long time, the industry of shopping center development in China is more behind in terms of shopping center concept development, design of a shopping center, investment model and the systematic professional way of shopping center development. How to lower the risks of shopping center development and have it to be a sustainable industry becomes a very crucial question to answer now. The paper will discuss those questions through literature review, interview, case study and comparison analysis. After all the research done in the paper, we can draw a few improving suggestions such as the government needs to have good commercial planning from the beginning, the developers shall have a healthy long term business model to support to have good shopping centers both for tenants and customers. Besides those, the developers should think about and use a professional way to do the shopping center development in China. The improving suggestion will need to focus on the customer needs and have long term business model.
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1 Introduction

1.1 Background

The 20th century was the golden century for the development of shopping center in U.S.A and Europe. The appearance of shopping center format shows a great progress on the retail development, this also brings people a huge change of the daily life and plays a role which is more and more important in our society. The average weight of the consumption happened in shopping center out of the total social consumption expenditure in U.S.A in 2008 was about 50% while in China only counted for 10%. (Bergqvist, 2009) There is a huge potential for the shopping center business in China.

The shopping center development highly relates to the social economics. According to a survey done by Internal Council of Shopping Center (ICSC) in 2010, when per capita GDP of a country reaches a level of 8,000 USD, then this timing point is the start for the booming of shopping center development business. For regional shopping centers which are built outside of the town, the appearance of this type of mall also closely relates to the car ownership. In western developed countries, where there have a lot of developed regional shopping centers which are out of town, the car ownership is always close to or even above 50%, since the consumers highly depend on the car to access to the centers, driving a car makes people could travel much more far away than they are living around. (Ma, 2010) The average per capita GDP and car ownership now in China are relatively much lower then western developed countries. But in Tier 1 cities in China for instance Shanghai, the per capita GDP 2010 was 9500 USD and the car ownership came to 40%, which are quite close to or a little above the benchmark mentioned in beginning of this paragraph. (Ma, 2010) It is golden time for China to be well-equipped to be able to face the booming of the shopping center business which is coming soon.

In recent years, more and more shopping centers built in China. By end of 2010, there
There were more than 200 shopping centers constructed and another few hundreds shopping center projects are under construction in whole China. (China Shopping Center Development Association, 2010) Those built and un-built shopping centers are mainly located in Tier 1 cities such as Beijing, Shanghai, Guangzhou and Shenzhen in China. Due to an old Chinese regulation, most of the projects built so far in China are developed and owned by local Chinese companies. The “old Chinese regulation” is: until 2000, the foreign investors could not have a 100% shareholder of real estate development company in China. According to this Chinese law during that time, it was a must for foreign real estate companies in China to have at least 50% joint venture with local Chinese companies. Also because of this, a lot of professional foreign shopping center developers have stopped their entering to China market, this also has explained why most of those built shopping centers are owned by only Chinese real estate companies. (Hu, 2009) Shopping center development business is a long term learning process, the good valuable experience all come from long time of doing business on the market. Due to the lack of experience, many local Chinese developers don’t know how to handle a shopping center project development, Mingfa Group who is a local Chinese shopping center developer is a “good” example. Since 2002, Mingfa Group had built two projects in China, one is in Xiameng and the other one is in Wuxi in China. Each of those two projects is more than half million square meters, and has been being abandoned since the first day they were built They are now totally empty and there is even no one tenant has opened there business in the malls. According to Mr.T (2008), there area a few reasons: First, the project is too big and the design of it is not based on market needs. Second, the design of the project is very complicated and there are a lot of dead corners. Third, last but not least, the business model Mingfa Group has adopted is wrong. Mingfa Group from the beginning they have been selling the units, imagine how this group could manage all those investors – most of them are speculators and they don’t have business to open in this mall at all, they only have one target which is to re-sell the units at a higher price in future. All those have made those two shopping centers dead.
As mentioned in previous paragraph, the old Chinese regulation limited the foreign real estate developers to have 100% shareholder projects in China, but now the door has been opened to foreign real estate developer to build shopping centers in China by having 100% shareholder for a few years since 2000, more and more western developers are moving to the China market. Facing to the fierce competition from all over the world, how the Chinese shopping center developers can do to build good shopping centers to be able to compete and take the market share? What is the business model should the Chinese shopping center developers use in this market? What and where they should pay attention to when it comes to site selection, shopping center concept development, design as well as the management of the shopping center?

1.2 Objective

The objective of this paper is to compare the current Chinese shopping center development to western developed countries and region such as U.S.A, Europe as well as Hong Kong to see the gap and different regarding the development, so as to be able to learn the experience generated by those developed countries and region for China. By this comparison, we shall learn what we can transfer from western countries regarding shopping center development and what shall China’s developers to do to be able to localize the business and make better shopping center projects. In the end of this article, we should come to a few constructive suggestions on how to do shopping center development better in China.

1.3 Methodology

As mentioned above, the purpose of this paper is to adopt from western developed counties and region regarding shopping center development experience to shopping center development in China for local developers. So the methodology of this paper will mainly be literature review, interview, case study and comparison analysis.
1.3.1 Literature review

The literature review will mainly cover the area of shopping center development history in China, definition and classification of the shopping center, the main attributes of shopping center as well as the theories that support the shopping center development. The history of shopping center development will also be discussed in the literature review chapter.

1.3.2 Interview

Interview method has been used in this paper in order to make author’s findings and results from case study and comparison analysis more up to date and double verified by those people who are currently working in shopping center development industry. The interviews will be mainly conducted in chapter four and chapter five for elaborating shopping center development in Europe and the common mistakes and problems of shopping center development in China.

1.3.3 Case study

The case study method will be applied to the specific country/region study of shopping center development such as in Europe and China. Through those case studies, some findings of shopping center development experience gained in those areas will be discussed.

1.3.4 Comparison analysis

Comparison analysis refers to the comparison between shopping center developments between China and other developed countries, also refers to the comparison between developed countries and region regarding shopping center development experience. The main findings from the comparison analysis are the problems will be found out in
shopping center development in China and it is going to be introduced in Chapter five in this paper.

1.4 Limitations

The comparison analysis and some of the conclusions in this paper are drawn basing on qualitative analysis. There is no quantitative analysis has been done to show more solid reasons and evidence when it comes the conclusion. Moreover, some of findings are subject to the author myself. Also some of the conclusions are only generally described, regarding how to implement them in more detail and how to make sure the suggestions can be easily adopted by developers can be discussed by applying different methods in the next step of this paper.

1.5 Organization

Chapter one is Introduction section, focus on background, objective and the methodology of this paper.

Chapter two is the literature review. In this chapter, the definition and classification of shopping center, main attributes of shopping center and the theories of shopping center development will be reviewed and discussed. The retail’s role in society has also been discussed, as well as the retrospection of shopping center development in China.

Chapter three is to introduce the importance of shopping center development. The part will brief the importance of shopping center development from four perspectives: economic reasons, social reasons, urbanism reasons as well as environmental reasons.

Three typical shopping center development types will be introduced in chapter four: North American, European and Hong Kong models. By introducing and comparing
the shopping center development history, current situation and future trends in all those three regional, also by listing the typical examples and doing some comparison and analysis, this chapter has come to the conclusion of the good experience regarding shopping center development that China can learn from those three areas.

Chapter five will introduce the current situation of shopping center development in China through two case studies of Beijing and Shanghai shopping center development. Through the introduction the author can conclude that China soon will have the basic needed conditions for shopping center development in terms of economic development, car ownership, spending power etc. After analyzing representative’s shopping centers in big cities in China, the future shopping center development trends will also be discussed. By comparing China and western developed countries and region, some problems of shopping center development in China has been concluded in this chapter.

Chapter six gives constructive suggestions on how to improve the shopping center development in China. Chapter seven is the conclusion part of this paper.
2 Literature review

This chapter provides a comprehensive literature review. Firstly, the different types of shopping center which will be used in the later chapters in this paper are clearly defined, the shopping center definition has also been introduced to avoid any misunderstanding when people read this paper. After that, the introduction of the main attributes of shopping center and the retail’s role in society can help explain a bit why retail is important for people’s daily life while shopping center has its own attributes after many year’s development. Further more, Reilly's Law of Retail Gravitation and Central place theory have been elaborated to explain how shopping center location to be defined while the introduction of Congener Conglomeration and External Demand Effect gives the understanding of the synergies between retailers and consumers. In the last section of this chapter, the retrospection of China’s shopping center development history will be fully introduced and this will give one of the main reasons why there are so many problems regarding shopping center development in China while western countries have already reached a certain high development level.

2.1 Shopping center overview

2.1.1 Shopping center definition and classification

Shopping center definition

Defining shopping centers is a complicated business. Guy (1998) stated that an initial problem is to define the physical limits of a particular center or indeed to define whether a group of shops is a “center”. One school of thought is that the term “shopping center” should be applied to any group of shops, whether old, new, planned, unplanned, purpose-built or converted. The opposite view is that the term should only be confined to planned, purpose-built retail development.
A shopping center is a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, typically with on-site parking provided. The center's size and orientation are generally determined by the market characteristics of the trade area served by the center. (ICSC, 2010)

According to Li (2003), in U.S.A and Europe, people like defining a shopping center as a retail property that is planned, built and managed as a single entity, comprising units and common areas with a minimum gross leasable area (GLA) of 5,000 sq.m.

In China, the shopping center is a brand new industry which has been paid more and more attention to in those years. According to the “Retail Classification” issued by Commerce Bureau of China (2006), the shopping center is defined as – shopping center is a complex of different retail category’s property and service facilities which have been developed, owned and managed by relevant companies.

**Shopping center classification**

Li (2003) had pointed out that the term “shopping center” has been evolving since the early 1950s. Given the maturity of the industry, numerous types of centers currently existing that go beyond the standard definitions, industry nomenclature originally offered four basic terms: neighborhood, community, regional and super regional centers. However, as the industry has grown and changed more types of centers have evolved and these four classifications are no longer adequate.

Guy (1998) in his paper also had discussed how to classify different types of shopping center. It appeared to be a very complicated task for all. In his summary, the shopping center can be classified by size and function, physical form and the ownership as well as tenancy arrangements. According to Guy (1998), the classification by size and function is very similar to the way how ICSC classifies shopping centers classify shopping centers, the ICSC way will be introduced in next section in this chapter.
Referring to the classification by physical form and the ownership as well as tenancy agreements, they can be summarized into two exhibits as following:

Exhibit 2-1 Classification by physical characteristics

Exhibit 2-2 Classification by ownership characteristics

International Council of Shopping Centers (ICSC) has defined eight principal shopping center types shown in Exhibit 2-3. This is the most popular way to classify a shopping center, so this paper is to describe it in very detail scale.
Neighborhood Center - This center is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. According to ICSC's SCORE publication, roughly half of these centers are anchored by a supermarket, while about a third has a drugstore anchor. These anchors are supported by stores offering drugs, sundries, snacks and personal services. A neighborhood center is usually configured as a straight-line strip with no enclosed walkway or mall area, although a canopy may connect the storefronts.

Community Center - A community center typically offers a wider range of apparel and other soft goods than the neighborhood center does. Among the more common anchors are supermarkets, super drugstores, and discount department stores. Community center tenants sometimes contain off-price retailers selling such items as apparel, home improvement/furnishings, toys, electronics or sporting goods. The center is usually configured as a strip, in a straight line, or L or U shape. Of the eight center types, community centers encompass the widest range of formats. For example, certain centers that are anchored by a large discount department store refer to themselves as discount centers. Others with a high percentage of square footage allocated to off-price retailers can be termed off-price centers.

Regional Center - This center type provides general merchandise (a large percentage of which is apparel) and services in full depth and variety. Its main attractions are its anchors: traditional, mass merchant, or discount department stores or fashion specialty stores. A typical regional center is usually enclosed with an inward orientation of the stores connected by a common walkway and parking surrounds the outside perimeter.

Super regional Center - Similar to a regional center, but because of its larger size, a super regional center has more anchors, a deeper selection of merchandise, and draws from a larger population base. As with regional centers, the typical configuration is as an enclosed mall, frequently with multilevel.
Fashion/Specialty Center - A center composed mainly of upscale apparel shops, boutiques and craft shops carrying selected fashion or unique merchandise of high quality and price. These centers need not be anchored, although sometimes restaurants or entertainment can provide the draw of anchors. The physical design of the center is very sophisticated, emphasizing a rich decor and high quality landscaping. These centers usually are found in trade areas having high income levels.

Power Center - A center dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or "category killers," i.e., stores that offer tremendous selection in a particular merchandise category at low prices. The center typically consists of several freestanding (unconnected) anchors and only a minimum amount of small specialty tenants.

Theme/Festival Center - These centers typically employ a unifying theme that is carried out by the individual shops in their architectural design and, to an extent, in their merchandise. The biggest appeal of these centers is to tourists, they can be anchored by restaurants and entertainment facilities. These centers, generally located in urban areas, tend to be adapted from older, sometimes historic, buildings, and can be part of mixed-use projects.

Outlet Center - Usually located in rural or occasionally in tourist locations, outlet centers consist mostly of manufacturers' outlet stores selling their own brands at a discount. These centers are typically not anchored. A strip configuration is most common, although some are enclosed malls, and others can be arranged in a "village" cluster.

Lifestyle Center - Most often located near affluent residential neighborhoods, this center type caters to the retail needs and “lifestyle” pursuits of consumers in its trading area. It has an open-air configuration and typically includes at least 50,000 square feet of space occupied by upscale national chain specialty stores. Other
elements help make the lifestyle center serve as a multi-purpose leisure-time destination, including: restaurants and entertainment, design ambience and amenities such as fountains and street furniture that are conducive to casual browsing, and often one or more conventional or fashion specialty department stores as anchors.

Exhibit 2-3 ICSC shopping center type

<table>
<thead>
<tr>
<th>Type</th>
<th>Concept</th>
<th>Square Feet</th>
<th>Number</th>
<th>Type</th>
<th>Anchor Ratio</th>
<th>Primary Trade Area**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighborhood Centre</td>
<td>Convenience</td>
<td>30,000-150,000</td>
<td>1 or more</td>
<td>Supermarket</td>
<td>30%-50%</td>
<td>3 miles</td>
</tr>
<tr>
<td>Community Centre</td>
<td>General merchandise, convenience</td>
<td>100,000-350,000</td>
<td>2 or more</td>
<td>Discount department store, supermarket, drug, home improvement, large specialty/discount apparel</td>
<td>40%-60%</td>
<td>3-6 miles</td>
</tr>
<tr>
<td>Regional Centre</td>
<td>General merchandise, fashion (mall, typical enclosed)</td>
<td>400,000-800,000</td>
<td>2 or more</td>
<td>Full-line department store, mass merchant, discount department store, fashion apparel</td>
<td>50%-70%</td>
<td>5-15 miles</td>
</tr>
<tr>
<td>Superregional Centre</td>
<td>Similar to regional centre but has more variety and assortment</td>
<td>800,000+</td>
<td>3 or more</td>
<td>Full-line department store, mass merchant, fashion apparel</td>
<td>50%-70%</td>
<td>5-25 miles</td>
</tr>
<tr>
<td>Lifestyle Centre</td>
<td>Higher end, fashion oriented</td>
<td>80,000-250,000</td>
<td>N/A</td>
<td>Fashion</td>
<td>N/A</td>
<td>5-15 miles</td>
</tr>
<tr>
<td>Power Centre</td>
<td>Category-dominant anchors, few small tenants</td>
<td>Typical 150,000-350,000, but can be smaller or larger</td>
<td>0-2</td>
<td>Not usually anchored in the traditional sense but may include book store, other large-format specialty retailers, multiplex cinema, small department store.</td>
<td>0%-50%</td>
<td>8-12 miles</td>
</tr>
<tr>
<td>Theme/Festival Centre</td>
<td>Leisure, tourist-oriented, retail and service</td>
<td>80,000-250,000</td>
<td>N/A</td>
<td>Restaurants, entertainment</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Centre</td>
<td>Manufacturers' outlet stores</td>
<td>50,000-400,000</td>
<td>N/A</td>
<td>Manufacturers' outlet stores</td>
<td>N/A</td>
<td>25-75 miles</td>
</tr>
</tbody>
</table>

*The share of a centre's total square footage that is attributable to its anchors
**The area from which 60%-80% of the centre's sales originate

(Source: summary from article “ICSC SHOPPING CENTER DEFINITIONS – Basic Configurations and Types, published by the international council of shopping centers.)

2.1.2 Main attributes of shopping center

Usually the shopping centers have different tenant mix under one roof which can meet many people’s different needs at the same time. The conglomeration effectiveness can gather a lot of footfall with different functional shopping needs to the center and then generate different emotional shopping needs for people at each shopping time – store
supports store. To better service the customer, nowadays shopping centers try to be well equipped by not only store units but also a lot of soft servicing such as good resting area, kids area as well as WIFI for allowing people to surfing on the internet etc. All those above mentioned factors require shopping center to have very wide goods range, many different functions, vary tenant mix and so on. (Li, 2007)

From the location point of view, there are existing three different shopping centers: downtown shopping center, community shopping center and suburban shopping center which locates in promoted potato field out of town with good traffic accessibilities including public transportation and cars.

A shopping center is usually to be planned and developed by the following steps: Firstly, market survey to secure the location – including current and future competition survey, purchasing power investigation, consumer behavior study and other analysis such traffic, plots etc. Secondly, concept development to finish the design – by looking to the specific plot, also by considering the actual needs from both customers and tenants, develop out a good design which good for both service and income. Thirdly, construction and leasing – to minimize the risk, the developers do the leasing before the construction start at least for the anchor tenants. The early contact with tenants also could give good input to the design. Last, operation – operation team will start in the shopping center a few months earlier than when the development team officially hand-over the center. In U.S.A and Europe, this way of developing a shopping center becomes more and more popular, it’s been seen as a professional way. (Bergqvist, 2009)

To sum up the above, the main attributes of shopping center are:

- Shopping center has different retail category to meet different shopping needs
- Shopping center is becoming multi-functional not only for shopping but also
for living

- Size of the center is subject to the market

- Enclose area providing good shopping environment

- Each unit run by different retailer but whole shopping center normally runs by one management company

2.1.3 Retail’s role in society

Retail development is closely linked to economic and social progress in a community. (Tegner, 2009) A regional shopping center ensures lower prices for consumers because it is specially designed for rational retail trade and the most efficient good distribution. Such close link between shopping center and people’s need makes it very necessary for all people to think about much more further how to build better shopping center to suit the needs of the society. (Tegner, 2009)

A long time ago trade emerged where paths and rivers crossed. People began to settle and a town was born. Until the mid-1950s the town center was the only place for retail trade in Western Europe. Since the 1960s the shopping centers have opened in both town centers and out of town locations. (Falk and Julander, 1983)

From the 1970s the growth in the retail stock mainly took place outside the boarder of the town center “on the Greenfield” while the retail stock in the town center has remained static. (Ladmann, 1999)

The traditional suburban development normally follow such procedure: residential projects – office/light industry/warehouses – commercial services including retail, restaurants and hotels. This sequence is often seen in greenfield locations which are difficult to support with sufficient services and infrastructure. (Tegner, 2009) John
(2010) also stressed that in the future the retail will become as the engine for development: regional shopping center – office/light industries – residential. Regional shopping centers as an engine for urbanism can be developed on greenfield or brown fields and provide integrated sustainable solutions with good infrastructure. The retail sector is a constant process of change. To be successful, all retailers must meet a changing reality.

2.2 Theories of shopping center development

In this part I will focus on talking about the theories of shopping center development, so the reader could gain an overall idea about why in theories the shopping center exists and what in theories support the shopping center to exist.

2.2.1 Reilly's Law of Retail Gravitation and Central place theory

Reilly's Law of Retail Gravitation

Reilly's Law of Retail Gravitation has been widely used for defining the location and the trade areas of a shopping center. Wagner (2001) mentioned selecting the optimal location for retail business presents a constitutive investment decision. Other elements of the marketing mix may be easily imitated by the competitor while the location decision can be considered as a critical factor for specific project to be successful. Bucklin (1971) pointed out that Reilly's Law of Retail Gravitation is a theoretical means of trade area definition. It is based on the premise that that people are attracted to larger places to do their shopping, but the time and distance they must travel influence their willingness to shop in a given city. In other words, people are more likely to travel shorter distances when possible. Additionally, customers are more likely to shop in larger communities, as they provide a greater opportunity for goods and services. Reilly's Law provides a mathematical formula that can be used to calculate hard numbers relating the distance people will travel.
According to Bucklin (1971), the model of Reilly's Law of Retail Gravitation could be algebraically defined as follows:

$$P_{ik} = \frac{\Lambda_k D_{ik}^{-\lambda}}{\sum_{j=1, k \neq j = 1 \ldots n} A_j D_{ij}^{-\lambda}}$$

Where “Pik” is the probability that a customer located at point “I” will visit a market at point “k”, given a set of “n” competing markets of which “k” is a member.

**Central place theory**

The central place theory was developed by German geographer Christaller. (Charles, 2001). The theory assumes if consumer has only one shopping purposed then this consumer will choose the closest relevant shopping center and retail destination to do the shopping. This theory has described and explained how the retail market and retail centers have formed up and what economical theory they have based on.

Christaller (1933) in his central place theory had introduced “Minimum Demand Balance Nodes” and “Shopping Distance Limit” for planning a shopping center. “Minimum Demand Balance Nodes” can be explained as the nodes from the Exhibit 2-4. All minimum demand balance nodes determine the minimum sales demand for allowing a center to survive. “Shopping Distance Limit” are the lines connecting the minimum demand balance nodes meaning the distance customers are willing to travel for the shopping. The minimum demand balance nodes and the shopping distance limit can decide how big the retail space shall be in an area and also can help the decide where to build a shopping center. According to this theory, a total market size can be calculated for a region. Then by looking to the competition in the region, market share of a shopping center can be estimated and applied for the potential sales estimation. With the known sales potential for a planned shopping center, the
size/dimensioning of a center can be calculated under certain assumptions and conditions. The shopping centers of course compete with each other. When one of the centers becomes much stronger than the others, this center will have bigger catchments area.

Exhibit 2-4

2.2.2 Congener Conglomeration and External Demand Effect

Congener Conglomeration

Hotelling(1929) had found out what attract consumer a lot is when two competing stores who sell similar products exist in the same shopping center/area, this also had explained why there are so many stores with similar concepts existing same time in a shopping center – this is called congener conglomeration.

The congener conglomeration theory focuses on the customer needs. The theory provides customers effective retail choices and minimizes the risks of consumer when they do shopping in a shopping place. Consumer can compare, select and avoid missed information on the market because there is more than one similar offer available front of them.
External Demand Effect

People who have been attracted to a shopping center by one or a few stores will possibly pay attention to other retailers, so the turnover of other retailers will possibly be increased. (Yi, 2007) This theory has built up the basis for explaining the effectiveness of anchor stores in the shopping centers and also explained shopping centers will always to try to have a full offering because the different retailers support each other and also make the shopping center successful together. Eppli (1964) had done a research and had shown that the sales of the non-anchor retail units in a regional shopping center could possibly have an increase of 50%-200% because of the introduction of the anchor stores into the shopping center.

Currently the ongoing discussion regarding the external demand effect is mainly related to tenant mix. In shopping center there exist two different types of tenants. One type is the anchors who could deliver a lot footfall to the shopping center and bring the external demand to the surrounding tenants. The main anchor tenants can be hypermarket, big department store etc. The other type is the small size tenants. The turnover of the main anchors is mainly affected by its own size and catchments area, not affected by the smaller tenants, while the small size units/tenants’ performance somehow is closely linked to the anchor tenants in the shopping centers.

2.3 Retrospection of shopping center development in China

2.3.1 1980s – The precursors to the shopping center in China

Shopping centers developed gradually and relatively late in mainland China and their origin and evolution differ significantly from shopping centers Hong Kong. Precursors to the modern shopping center first appeared in China in the late 1980s when certain department stores, faced with intensifying competition, sought to improve their operating and financial performance by increasing the number of their
functional tenants such as restaurants and entertainment concepts. However, these additions did not change their basic business model and these retailers remained department stores. Different from the department stores in Europe and U.S.A, Chinese department stores seldom operated the in-store shops by themselves. Usually, department stores charged entry fees to factories or dealers and also deducted a certain percentage from the sales of every shop. (Guo, 2008)

Over time, some shopping center-like projects began to appear in big cities. However, their small size and tenant mix limited their success, and they were not widely copied by later stage shopping centers.

2.3.2 1990s - The first generation of fully fledged shopping centers

Economic reform, accelerated urban development and increasing consumer spending in the early 1990s created significant opportunity to develop retail real estate in China. Some typical developments, such as Guangzhou Tee Mall, Shanghai Grand Gateway, and China World Trade Center, represented bold innovations and applied the business model of shopping centers. These projects incorporated many elements of modern shopping centers, for example, design planning, leasing, tenant mix and operational management, which have been replicated in subsequent projects. (Li, 2010)

At this stage, many shopping center owners considered the rents paid by their tenants as just one element of their company’s overall asset portfolio. Management regarded rent as a way of diversifying its profit stream by mitigating the market risks due to the cyclical fluctuations of the national economy. The shopping center owner’s goal was a stable income stream rather than an increasing rate of return on the owner’s investment. (Guo, 2008) In this regard, the Chinese market was quite different from its European and American counterparts, where shopping center owners, often adopting the real estate investment trust structure, sought to improve returns by turning over their portfolio of properties. Chinese shopping centers did not change
hands frequently and some high-quality property owners chose not to structure their portfolios as a real estate fund.

2.3.3 21st Century - The latest stage of Chinese shopping center development

The second generation of Chinese shopping centers emerged in the 21st century, at a time when China’s economy had matured and the pace of urban development had accelerated even further. Additionally, the growth of the Chinese retail and real estate industries favored further, large-scale development of the shopping center concept.

The latest generation of shopping centers was built on the operational practices of the first generation of shopping centers, but also applied lessons from shopping center development in Hong Kong and international markets to the mainland Chinese market. In the process, shopping center development and operations became much more standardized. The rapid commercial success of the second generation of shopping centers prompted their owners to enter an increasing number of Chinese cities. (ICSC, 2010)

However, the rapid development of the shopping center industry and the ready availability of capital also resulted in some less successful, speculative projects and a bifurcation in Chinese shopping center performance. Not all centers adhered to professional management practices. For example, multi-owned strata title centers, which sell shops to individual investors (rather than renting them out to tenants), now account for 55% of all mainland centers, a number of them have performed poorly. Some Chinese shopping center developers have been able to correct the problems that they have encountered and have turned around their centers’ performance. The remedial actions of other developers, however, have not succeeded and they have exited the market. (Guo, 2008)
3 The importance of shopping center development

The purpose of this chapter is to stress the importance of shopping center development, from four angles to explain how the shopping center development could help with social development.

3.1 Economic perspective

A shopping center benefits the community and creates local employment within retail trade, services, construction and manufacturing. The majority of jobs created within the retail sectors are local. Within all other kinds of employment the co-workers’ workspace doesn’t necessarily have the same postcode as the company itself. People working in the retail sector, especially within the retail service industry, also live close to their work place, paying income tax to the city and region as well as sales tax with their purchases. These jobs actively contribute to the development of the city and the region. Shopping centers create and support millions of jobs within the development, building and operation. A single shopping center can offer employment for approximately 2,000 people. (Tegner, 2009)

The shopping center development often acts as an engine for regeneration, investment and city growth. In order to succeed with the development of new urban and suburban areas, initial investments in roads and infrastructure must be made. These investments need to be financed by high value land uses such as shopping centers, residential areas and offices. A shopping center can deliver good value both directly and indirectly by making the residential and office developments more attractive for developers and end-users. Shopping centers are high value land use. This means that shopping centers offer an important platform for the growth of the retail trade and can act as an engine for regeneration of the town center and surroundings. Physical improvements to the environment will lift the broader economy. One possibility to lift the whole region is to develop on brown field sites. Brown fields can be defined as land which has been
used or developed but is no longer in productive use. Brown fields normally don’t have a good image. They are related to disturbed contaminated grounds with abandoned buildings, where people have lost their jobs. Brown fields can be old industrial sites, but also former post offices or train stations in the town center.

Also it is peoples’ need for competitive prices and wider range of goods. Peoples’ wish to get the best value in any trade is as old as humanity itself. Most people therefore need to compare goods and prices before deciding to buy. In this case, shopping center could provide a very good platform for these needs. (Tegner, 2009) A full offering regional shopping center gives visitors a complete and up to date retail offer. It gives access to many retailers operating under optimal and rational circumstances.

A new shopping center stimulates positive competition with other retail areas including town centers and provides retail expansion possibilities the historical town centers may not have room for. So the shopping center development acts as an engine for regeneration, investment and city growth. A competitive environment keeps prices low. Low prices benefit consumers individually which on an aggregated level brings further macro-economic benefits.

3.2 Social perspective

A well designed shopping center improves the image of any local area, city or region and attracts residents, visitors and tourists. In the development of a city and region, one of the key factors is the existence of a dynamic downtown area. A good regional shopping center creates a new destination which strengthens the identity and attraction of the region and its cities. The new hub can lift the whole region and town center and also give an impulse for town center and area regeneration.
A good shopping center acts as a natural family friendly meeting place for people in its primary catchments area. Today shopping center is also used as meeting places. (Nordic Council of Shopping Centers, 2009) People are strolling through the mall both to see other people and to be seen. Shopping centers are marketplaces for the primary catchments area. Offering different forms of events has also become a more common element to attract more customers and deliver a better shopping experience. It is comfortable to shop and stroll around in a shopping center where “all” errands can be carried out under one roof. Barrier free accessibility to the center and shops with wide alleyways and elevators and escalators make it comfortable for customers and easier for disabled people and families with kids to stroll around. In a shopping center you find resting places, baby rooms, higher service level with a pleasant atmosphere, clean toilets, well signposted directions and a safe and secure building.

A shopping center also can support social and cultural activities by containing or connecting to cinemas, libraries, exhibitions, medical care and pharmacies. Shopping centers not only provide retail and entertainment components, they also offer public and private services. These are for example: banks, insurance companies, health centers, libraries, citizens’ services, post offices, pharmacies and medical care, but also Fitness centers, Kindergarten and educational training facilities. A regional shopping center acts as a “second” town center for many and as the town center for its primary catchments area. Here the customers have possibilities to fulfill all their errands at one destination. (Tegner, 2009)

3.3 Urbanism perspective

A wider spreading opinion is that the existence of retail is required for major urban density and frequency and is an important function for the town centers. Shopping centers, in town and out-of-town, fulfill important urban functions for urban minded people.
As cities grow, their population starts to live and work further and further away from city center. And with economic growth it becomes increased need for retail space. The ever-increasing demands on the town center of growing cities can only to a certain degree be solved by higher density and infrastructure investments. Many retailers have also started to specialize and widen their range of goods, demanding larger shop space and smarter logistics. Shopping centers, in town and out-of-town, fulfill important urban functions for urban minded people who spend a lot of their lives outside the city center. Urbanism is linked to a place where people live, work and meet other people. If people live and work out of town, they also need retail out of town to maintain an urban lifestyle. In many cases retail has developed as an afterthought. As opposed to this, a regional shopping center outside the town can offer preconditions for housing and work places and in that case act as an engine for further urban development. (Tegner, 2009)

3.4 Environmental perspective

A well designed shopping center offers an eco-friendly and sustainable environment in one technically advanced building. New shopping centers are designed and built to the latest technical and environmental standards. (Tegner, 2009) Possibilities to obtain new standards are the use of:

- Geothermal energy

- Solar energy

- Sorting and recycling of waste

- To use ecologically sustainable materials in the construction process

- Use of heat exchangers
- Reuse of rainwater

A shopping center accessible via a choice of transport offers environmentally sustainable consumer travel. Carrying out many errands in one journey is more eco-friendly than a single item purchase. There are different possibilities to reach a regional shopping center. Besides the most common, car travel, it is often possible to use public transport links, particularly when the regional shopping center is located close to residential and commercial areas. If there is not an already installed public transport network in an area, a shopping center can often contribute to public transport services by investments and tax revenues. A shopping center is often well located between where people work and live. So it is also possible and convenient for the customers to shop on the way home or to work. This reduces the transporting mileage, which is economically and environmentally sustainable as well as time saving. (Tegner, 2009)

A shopping center with direct access to the national road network offers efficient and environmentally sustainable goods distribution. Customers combine many purchases in one visit and transport the goods straight to their homes. Even when the shopping trip is done by private car, the overall environmental impact is kept to a minimum. There will be less heavy load traffic in the town centers and fewer congestion problems because fewer transporters get into narrow streets in crowded town centers. There will be lower emissions with less noise, light and sound disturbances. In a regional shopping center it is possible to store more goods. Huge delivery of goods is needed more seldom, because of the storage possibilities. The customers also benefit from the storage of goods; because they can be assured that the whole range of goods is available. (Tegner, 2009)
4 Shopping center development in developed countries and region

In this chapter, three types of shopping center development will be introduced. They are U.S.A, Europe and Hong Kong. U.S.A, Europe and Hong Kong are three developed areas. They can represent the most developed level of the shopping center development in the world. Through the introduction and summary of the shopping center development in those three countries and region, those findings could be used in the comparison in next chapter when it comes to shopping center development in China.

4.1 Three types of shopping center development

Since shopping center development is very closely related to economic development, here I have chosen three developed countries and region which are U.S.A, Europe and Hong Kong to discuss the development of shopping centers there. Those three countries and region can actually well cover all the main shopping center development models in the world. Hereby I summarized the comparison of those three country/regions main attributes, background and future trends as seen from Exhibit 4-1.

Exhibit 4-1 Three types of shopping center development comparison

<table>
<thead>
<tr>
<th>Development model</th>
<th>Typical attributes</th>
<th>Development background</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A shopping</td>
<td>Located closely to highway, out of town, low</td>
<td>Urbanization of suburban</td>
<td>Good roads system, high car ownership, large population living outside of town, high</td>
</tr>
<tr>
<td>Center</td>
<td>Levels, large parking number</td>
<td>Area</td>
<td>Purchasing power</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------------------------</td>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>Europe shopping center</td>
<td>Located between city center and satellite town center</td>
<td>Rebuilding after 2nd World War and new town constructed</td>
<td>Strict zoning from government, strict protection of green area from suburban area</td>
</tr>
<tr>
<td>Hong Kong shopping center</td>
<td>Highly depend on public transportation due to high land price, mix-use project, high plot ratio</td>
<td>Limited land and high use of space required</td>
<td>Good public transportation including subway system, bus system, high density of population, high purchasing power</td>
</tr>
</tbody>
</table>

(Resource: Author collected)

I will select a few typical shopping centers from the above three areas to compare in more detail regarding the macro shopping center development environment and the shopping center attributes itself. Through all those comparison findings and summary could be made in the end of this chapter.
4.2 Shopping center development in U.S.A

4.2.1 U.S.A shopping center overview

U.S.A has been developing shopping centers for more than a century. According to Mu (2010), by end 2009, the total number of shopping centers in U.S.A was about 46,000, and the total sales coming from shopping centers counted for 50% of the total social retail sales except auto. U.S.A keeps high speed on the shopping center development and people’s daily life are now closely connected to those shopping centers. Mu (2010) had found that out of those 46,000 shopping centers, there are 1,500 centers are enclosed regional shopping centers. In 2009, there were about 300 million shopped in the shopping centers in U.S.A. The contribution of shopping center business to the GDP was about 17%.

To be able to have comparison between shopping centers in U.S.A and centers in other countries and region, a few famous regional American shopping center projects have been selected and summarized into following table with basic project information. The selection criteria is basing on the size, number of stores and top of mind according to a survey done by CBRE Shanghai office in 2009.
Exhibit 4-2: U.S.A famous centers:

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leasable Area sq.m</th>
<th>Floors</th>
<th>Stores</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kind of Prussia Mall</td>
<td>1963</td>
<td>251,388</td>
<td>2</td>
<td>400</td>
<td>13,376</td>
<td>Regional</td>
<td>3 Expressways</td>
<td>Kravco Simon</td>
</tr>
<tr>
<td>Mall of America</td>
<td>1992</td>
<td>232,000</td>
<td>4</td>
<td>522</td>
<td>20,000</td>
<td>Regional</td>
<td>Expressways, Light Rail, Taxi</td>
<td>Triple Finve Group</td>
</tr>
<tr>
<td>Millcreek Mall</td>
<td>1974</td>
<td>37,000</td>
<td>1</td>
<td>175</td>
<td>4,000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>Cafaro Company</td>
</tr>
<tr>
<td>South Coast Plaza</td>
<td>1967</td>
<td>251,000</td>
<td>3</td>
<td>280</td>
<td>8000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>N/A</td>
</tr>
<tr>
<td>Aventura Mall</td>
<td>1983</td>
<td>222,000</td>
<td>2</td>
<td>275</td>
<td>12000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>Tumberry Associate</td>
</tr>
<tr>
<td>Sawgrass Mills</td>
<td>1990</td>
<td>221,472</td>
<td>1</td>
<td>350</td>
<td>9,000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>Simon Property Group</td>
</tr>
<tr>
<td>The Galleria</td>
<td>1970</td>
<td>213,530</td>
<td>4</td>
<td>375</td>
<td>11,000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>Simon Property Group</td>
</tr>
<tr>
<td>Roosevelt Field</td>
<td>1956</td>
<td>208,528</td>
<td>2</td>
<td>294</td>
<td>6,000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>Simon Property Group</td>
</tr>
<tr>
<td>Woodfield Mall</td>
<td>1971</td>
<td>206,600</td>
<td>1</td>
<td>300</td>
<td>12,000</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>A. Alfred Taubman</td>
</tr>
<tr>
<td>Palisades Center</td>
<td>1998</td>
<td>205,996</td>
<td>4</td>
<td>400</td>
<td>9,800</td>
<td>Regional</td>
<td>Expressway surrounding, Taxi</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(Source: Author collected)

4.2.2 Summary of U.S.A shopping center development

Out of town regional shopping center is popular - In U.S.A, the out of town regional shopping center is very popular built. Wang (2010) had pointed out in her paper that the urban planning in a typical American city is like this: traditional city center works as office and provides the area for people for their daily working, but there are many suburban areas planned as only for living. So a typical lifestyle in U.S.A is that people are living out of town, but still working inside of the town center. This is because big land area and low density of population in U.S.A. As long as there is a residential town planned, then the relevant social facilities will be required be built such as schools, retail projects and hospital etc.

High car ownership is an another reason explaining why in U.S.A those out of town regional shopping centers can be built and used. The expressways system in U.S.A is very developed. With lots of people can access to a car, the pre-condition for a shopping center to be built out of town also become reasonable and feasible.
Providing huge amount of car parking - American shopping centers almost have the highest parking ratio provided to shopping center projects development in the world. This can be compared by the above center list to the centers which will be introduced later on in this paper. In Europe, the parking ratio is between 30 to 40 car parking spaces built for 1,000 sq.m gross leasable area, but as we see from Exhibit 4-2, parking ratios for American shopping center projects varies from 40 to 90 car parking spaces per 1,000 sq.m gross leasable area. The American developers are aware of the car ownership, consumer’s shopping behaviors and also the developed roads system in U.S.A.

Government reasonable commercial projects planning - Mu (2010) in his article also talked about how American government regulates the shopping center planning. According to Mu (2010), all states in U.S.A have their own system to evaluate retail projects’ location, size and functions. This helps a lot to reduce unhealthy competition on the market due to the poor commercial projects planning, protecting both the developers and the consumers.

4.3 Shopping center development in Europe

In this chapter, the introduction of shopping center development in Europe and summary of the findings from European shopping center developer will be conducted by a case study of Inter IKEA Center Group (IICG). In the case study some interviews will be made in order to extract better shopping center development knowledge from European developer.

The reason why I have chosen IICG is because it is a European shopping center developer and further more it has many shopping centers in many different European countries. The closer look into the development within this group can give a comprehensive overview of the shopping center development crossing the most of the countries in Europe.
Case study – Inter IKEA Center Group (IICG)

Case:

Inter IKEA Center Group established in 2001, is owned by IKEA Group and Inter IKEA Group. Since 2001, IICG has developed over 26 centers in different European countries. The Exhibit 4-3 shows all built regional shopping centers by IICG in Europe, while Exhibit 4-4 shows the status of three ongoing projects from IICG group in China.

Exhibit 4-3: Inter IKEA Center Group (IICG) European Regional Center List

<table>
<thead>
<tr>
<th>County</th>
<th>City</th>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leasable Area sq.m</th>
<th>Floors</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Graz</td>
<td>Centre West</td>
<td>1989</td>
<td>74,900</td>
<td>1</td>
<td>3,300</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Austria</td>
<td>Linz</td>
<td>Haid Center</td>
<td>1991</td>
<td>68,800</td>
<td>1</td>
<td>2,600</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Czech</td>
<td>Brno</td>
<td>Avion Shopping Park</td>
<td>1998</td>
<td>62,200</td>
<td>1</td>
<td>2,550</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Czech</td>
<td>Ostrava</td>
<td>Avion Shopping Park</td>
<td>2001</td>
<td>80,000</td>
<td>1</td>
<td>3,100</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Poland</td>
<td>Katowice</td>
<td>Rawa Park Handlowy</td>
<td>2005</td>
<td>33,900</td>
<td>1</td>
<td>1,760</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Poland</td>
<td>Lodz</td>
<td>Port Lodz</td>
<td>2010</td>
<td>103,500</td>
<td>2</td>
<td>3,400</td>
<td>Regional</td>
<td>Buses, taxi and train</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Poland</td>
<td>Warsaw</td>
<td>Domolika</td>
<td>2006</td>
<td>40,100</td>
<td>1</td>
<td>4,000</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Portugal</td>
<td>Porto</td>
<td>Mar Shopping</td>
<td>2008</td>
<td>102,400</td>
<td>2</td>
<td>5,100</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Lugano</td>
<td>Centro Lugano Sub</td>
<td>2004</td>
<td>41,800</td>
<td>1</td>
<td>1,030</td>
<td>Regional</td>
<td>Buses and taxi</td>
<td>Owned and managed by IICG</td>
</tr>
</tbody>
</table>

(Resource: Collected from IICG marketing material 2010)

Exhibit 4-4: IICG ongoing projects in China

<table>
<thead>
<tr>
<th>County</th>
<th>City</th>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leasable Area sq.m</th>
<th>Floors</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Beijing</td>
<td>Beijing Shopping Mall</td>
<td>2014</td>
<td>210,000</td>
<td>3</td>
<td>7,000</td>
<td>Regional</td>
<td>Bus, taxi and subway</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>China</td>
<td>Wuxi</td>
<td>Wuxi Shopping Mall</td>
<td>2013</td>
<td>140,000</td>
<td>3</td>
<td>5,800</td>
<td>Regional</td>
<td>Bus, taxi and subway</td>
<td>Owned and managed by IICG</td>
</tr>
<tr>
<td>China</td>
<td>Wuhan</td>
<td>Wuhan Shopping Mall</td>
<td>2015</td>
<td>145,000</td>
<td>3</td>
<td>5,100</td>
<td>Regional</td>
<td>Bus, taxi and subway</td>
<td>Owned and managed by IICG</td>
</tr>
</tbody>
</table>

(Resource: Collected from IICG marketing material 2010)
By interviewing to IICG, the “IICG way” of developing shopping centers can be summarized in the following paragraphs, and those in some extent can represent a common way of doing shopping center business in Europe.

**IKEA store as a unique anchor** - IICG shopping centers always built next to IKEA store. The IKEA brand is powerful enough to attract visitors from far and wide - people drive up to 60 minutes to visit our centers. The IKEA store also can widen catchment area and the range of convenience goods in the center. These two factors form excellent conditions for a successful shopping destination and gives synergies for all. (IICG, 2010)

**A long-term investment** - Long-term continuity and profitability is as important to IICG. IICG builds shopping centers which can last for long time by carefully choosing materials and designs that stand the test of time. Also IICG does not sell any units but keeping all areas by its own and manage the centers by its own. (IICG, 2010)

**Professional daily management** - IICG’s management teams are made up of people who know the region inside out, forming lasting relations with both retailers and the local community. By taking care of the day-to-day operations in IICG centers they can ensure high standards and professional management. It also leaves the retail partners free to focus on what they do best - promotions, sales and services. (IICG, 2010)

**Analysis:**

IICG has strategic partner IKEA store as its strong unique anchor to be a sound selling point on the market. This again shows that it is good and very important that for shopping center developer to have a few main anchors’ long term cooperation during its development process. This will reduce its time for leasing and also secure the tenants from the beginning, also to be able to minimize the risk of future development.
Further more, IICG does not sell any units but by always keeping all areas to be leased out and managed by its own team. By doing this, the company can secure the good operation and overall management of the centers. This also can be perceived as showing great responsibilities to the tenants, so tenants can really focus on their daily business and what they are professional with.

Regarding the dimensioning of the shopping center, all IICG projects have high parking ratio planned between 30-40 car parking spaces per 10,000 sq.m gross leasable area. Also according to the group investment manager, before investing every project there will be an extensive market study will be carried out to define the center type, calculate the potential sales and decide the size of the project.

4.4 Shopping center development in Hong Kong

The reason why I have chosen Hong Kong as an reference region of shopping center development to be studied is because Hong Kong is very developed not only for economic but also for retail. The international financial and trading conditions all make Hong Kong very fast developing during the past 100 years, it also can represents the most developed areas in southeast Asian countries, which means that Hong Kong will be the next step for mainland of China in terms of a lot of things. In the paper, I treat Hong Kong as a separated study region apart from mainland of China.

4.4.1 Hong Kong macro overview

Hong Kong is one of two special administrative regions (SARs) of the People's Republic of China (PRC). Hong Kong is situated on China's south coast and enclosed by the Pearl River Delta and South China Sea it is renowned for its expansive skyline and deep natural harbor. With land mass of 1,104 km2 and population of 7,000,000 people, Hong Kong is one of the most densely populated areas in the world. Under the
principle of "one country, two systems", Hong Kong runs on economic and political systems differently from those of mainland China. Hong Kong is one of the world's leading international financial centers, with a major capitalist service economy characterized by low taxation, free trade and minimum government intervention under the ethos of positive non-interventionism.

Low car ownership about Hong Kong is well-known in China. According to the survey done by Hong Kong statistical Bureau, in 2010, the car ownership in Hong Kong is only 13% while in other cities in mainland of China such as Beijing has already reached 40%. The cost to have a car and use a car in Hong Kong is very expensive so people usually take public transportation which has been also well developed and encouraged by Hong Kong government.

4.4.2 Hong Kong shopping center overview

As discussed before, to be comparable, only regional shopping centers with full offering have been selected. The Exhibit 4-6 below can give an overview of the main regional shopping centers spreading over Hong Kong region. They are mainly located out of the city center but with good accessibility to public transportations such as bus, subway etc.
### Exhibit 4-5: Top regional shopping center in Hong Kong basic location

![Image of Hong Kong shopping centers]

(Resource: Author collected by Google earth)

### Exhibit 4-6: Top regional shopping center in Hong Kong basic figures

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leasable Area sq.m</th>
<th>Floors</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Town Plaza</td>
<td>1985</td>
<td>1,300,000</td>
<td>9</td>
<td>400</td>
<td>Regional, mixed with office</td>
<td>Few bus lines, Taxi, Connected to subway line</td>
<td>Overall managed by Kai Shing Management</td>
</tr>
<tr>
<td>Festival walk</td>
<td>1998</td>
<td>1,200,000</td>
<td>6</td>
<td>850</td>
<td>Regional, mixed with office</td>
<td>Few bus lines, Taxi, Connected to subway line</td>
<td>Overall managed by Swire Properties</td>
</tr>
<tr>
<td>Element</td>
<td>2007</td>
<td>93,000</td>
<td>4</td>
<td>700</td>
<td>Regional, mixed with residential</td>
<td>Few bus lines, Taxi, Connected to subway line</td>
<td>Overall managed by MTR Cooperation</td>
</tr>
<tr>
<td>Harbour City</td>
<td>2003</td>
<td>186,000</td>
<td>7</td>
<td>900</td>
<td>Regional, mixed with office</td>
<td>Few bus lines, Taxi, Connected to subway line</td>
<td>Overall managed by Wharf Limited</td>
</tr>
<tr>
<td>Hongkong Times square</td>
<td>1994</td>
<td>83,700</td>
<td>6</td>
<td>700</td>
<td>Regional, mixed with office</td>
<td>Few bus lines, Taxi, Connected to subway line</td>
<td>Overall managed by Wharf Limited</td>
</tr>
</tbody>
</table>
(Resource: Author summarized and collected from each project’s visiting, the trip was done in Nov.2010)

4.4.3 Summary of Hong Kong shopping center development

From all above figures and data about Hong Kong macro economy and the most popular shopping centers, I could draw some conclusions as below:

Mix-use shopping center format - Limited land resource has made mix-use shopping center format is very popular in Hong Kong. The shopping centers always integrate with office or residential projects, and not as the American shopping center which only has two to three levels, shopping centers in Hong Kong normally has many levels. One hand, the retail project could bring full service to those people living and working in the towers on top of it. One another hand, the residential tower and office tower can deliver a huge footfall to the shopping center. This has been approved being a successful real estate model in Hong Kong.

Highly depend on public transportation - From Exhibit 4-6 we can see that none of the listed shopping center has many car parking even though the gross leasable area of each is not small. The highest parking ratio (parking ratio=Parking number/gross leasable area*1000) is from Hong Kong Times Square project – 8.4 parking lots per 1,000 gross leasable area, which is far lower than 30 parking lots per 1,000 gross leasable area. (Li, 2009) All centers are well integrated and connected to public transportation including subway lines, buses and taxi.

Simple layout design - All visited shopping centers have very simple layout. I have made an interview to C.Heng who is manager from Element, and according to Heng (2010) the reason for this simple design is because customer needs to have easy navigation in the shopping center. A simple layout can also help to have clear clustering cross the center – avoiding conflicts from different target group. The simple
layout also contributes to the efficiency of the center, make the project easier for structure, MEP solution etc.

**Good shopping center management – sole management company** - The operation is a key for the daily running of the center. This will for sure affect the cost and income. To be able to have a good operation for a center, it is important that there is only one management company overall responsible for operating the center. (Heng, 2010) Also it can be seen from the above listed regional shopping centers in Hong Kong that all the projects are managed by one company either by the developers themselves or have a signal outsourced management company.

Sole Management Company can simplify the management, but the company can decide if or not do all things in-house or out-sourcing, in all cases all parties should only in the end report to one management company.
5 Shopping center development in China

In this chapter, I will choose Beijing and Shanghai as typical examples to introduce the current situation of shopping center development in China, after that the trends of shopping center development in China is also to be discussed. By basing on the comparison between the current situation in China and the previous introduction of shopping center development in developed countries and region, some problems of shopping center development in China will be summarized.

Nevertheless, I want to start this chapter by stressing that the potential of shopping center development in China for next few years is very big even though currently there are many challenges and problems for that.

“With the growth of China’s economy, shopping centers play an increasingly important role in the retail industry and the urban development process. Some centers place great emphasis on professional management and are quite profitable. However, rapid growth and ready capital have resulted in some less successful centers. Nonetheless, the prospects for the shopping center industry are good as shopping centers account for less than 10% of total retail sales and given China’s expected economic and population growth.” (Guo, 2008)

5.1 China macro overview

China, with 13.4 billion population in 2010 covering 9.6 million square kilometers land area, is one of the countries who has quickly walked out from the global economic crisis happened from 2007. China is the third largest country in the world and it has grown at a double-figure rate for five consecutive years till 2010.

**GDP** – The total volume of GDP in China in 2010 was 39,798 billion RMB (1 RMB=1.1 SEK), which has a 10.3% increase comparing to 2009. By looking back
five years from 2010, the growth rate of GDP in China keeps a high increase rate and it is predicted to keep a growth rate of 8% for the next five years. (China Statistical Bureau, 2011)

**Consumer Expenditure** – In 2010, the total retail sales in whole China reached 156,998 billion RMB which comparing to 2009 has a growth rate of 18.3% including price impact. If excluding price impact, the actual increase is 14.8% which is still a double-digit increase number. From 2006 to 2010, the retail sales in China have kept an average growth of 15%. (China Statistical Bureau, 2011)

**Urbanization** – China’s government has been focusing on speeding up the urbanization. Exhibit 4-1 shows that by 2010, the urban population in China was 48%. According to the 12th five years plan by Chinese government, by 2015, the urban population will reach 51%. China now only focus on big cities’ development, China also take care of the smaller cities and try to speed up the development there. According to Chinese Statistical Bureau (2010), by 2020, China will have 221 cities which have more than one million population, which is far more than that in Europe.

Exhibit 5-1 China Urban Population (%) 1997-2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Population(%)</td>
<td>33%</td>
<td>35%</td>
<td>38%</td>
<td>40%</td>
<td>43%</td>
<td>44%</td>
<td>46%</td>
<td>48%</td>
</tr>
</tbody>
</table>

(Source: Author summarized)

5.2 **Shopping center development in Shanghai**

5.2.1 **Shanghai macro overview**

With a total permanent population of 19 million and a total volume GDP of 1,400 billion RMB by end of 2009, Shanghai is China’s largest city by GDP and population.
It is a major transport and port hub with ambitions to become a global financial, trade and high-tech center. Shanghai plays a very important role towards the national economic, it leads the country in the quality of economic growth. More than 60% of GDP derives from service sector. Being as Chinese mainland’s financial center, Shanghai is the home to 133 banks, 307 insurance companies, 93 securities companies and 170 foreign-owned financial institutions as well as the country’s largest exchanges in stocks, gold, commodity and financial futures. (Shanghai Statistic Bureau, 2010)

Exhibit 5-2 Per capita GDP, Income and Consumption Shanghai 2002-2009

Car ownership in Shanghai is relatively lower than that in Beijing due to the government has been trying to limit the car plate by put it to bid from a certain high base price. The public transportation in Shanghai is very developed. Shanghai has the largest subway system in the world so far. By 2010, the total built subway lines was 420 km and it is still growing.

(Source: CEIC)
5.2.2 **Shanghai shopping center overview**

As we know, Shanghai is trying its best to build itself into an international center of finance, trade and commerce, a new retail economy has evolved accordingly. During the past twenty years, the retail sector in Shanghai has been developed from a simple and inefficient distribution system to a much more complex and high quality market. Neither Hall (1996) nor Friedmann (1986) had included retailing development level as a defining characteristic of a world city, but as we see nowadays from cities all over the world, all world cities have very strong retail sector and shopping center development.

Shanghai, being one of the world cities, has its own retail development history including shopping center development. According to Wang and Zhang (2005), Shanghai retail has experienced five steps to be able to have what the development level of retail in Shangahai:

- **1980s** – Private ownership predominates in the retail sector but government intervenes through regulatory measures

  ↓

- **Early 1990s** – A planned hierarchy of retail stores is common is Shangahai

  ↓

- **Late 1990s** – Big box stores and power centers have emerged to become new leading retailes

  ↓

- **2000s** – Retail chains are the most important type of retail concentration
As it has been described above, there is a retail revolution in Shanghai during the past 20 years. Shopping center development in Shanghai has been being developed with the same rhythm to retail. Today there are many shopping centers projects in Shanghai. As seen from Exhibit 5-3 below, same as all other traditional Chinese cities, the retail projects in Shanghai has grewed from city center to suburban area. Traditional commercial department stores and commercial streets are mainly locating in the city center while the regional shopping centers and boxes are placed and developed a bit out of the traditional town center. Exhibit 5-4 shows the main figures for the regional shopping centers in Shanghai. This will be used in the summary of shopping center development in Shanghai to help the analysis.

Exhibit 5-3 Shanghai retail projects destruction map

(Source: Author surveyed and produced by Mapinfo.)
Exhibit 5-4 Main regional shopping center in Shanghai

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leaseable Area sq.m</th>
<th>Floors</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Gateway</td>
<td>1999</td>
<td>125,000</td>
<td>7</td>
<td>1,300</td>
<td>Regional</td>
<td>2 subway lines</td>
</tr>
<tr>
<td>Cloud Nine</td>
<td>2004</td>
<td>150,000</td>
<td>9</td>
<td>1,100</td>
<td>Regional</td>
<td>3 subway lines</td>
</tr>
<tr>
<td>Sky Mall</td>
<td>2009</td>
<td>160,000</td>
<td>5</td>
<td>2,000</td>
<td>Regional</td>
<td>1 subway line</td>
</tr>
<tr>
<td>Wanda Plaza Pudong</td>
<td>2009</td>
<td>140,000</td>
<td>4</td>
<td>2,000</td>
<td>Regional</td>
<td>No</td>
</tr>
<tr>
<td>Wanda Plaza Jiangqiao</td>
<td>2011</td>
<td>150,000</td>
<td>4</td>
<td>2,000</td>
<td>Regional</td>
<td>2 subway lines</td>
</tr>
<tr>
<td>Wanda Plaza-Wujiaochang</td>
<td>2006</td>
<td>175,000</td>
<td>6</td>
<td>750</td>
<td>Regional</td>
<td>1 subway line</td>
</tr>
<tr>
<td>Super Brand Mall</td>
<td>2002</td>
<td>122,000</td>
<td>8</td>
<td>800</td>
<td>Regional</td>
<td>1 subway line</td>
</tr>
<tr>
<td>Brilliance West Shopping Mal</td>
<td>2004</td>
<td>45,000</td>
<td>6</td>
<td>600</td>
<td>Regional</td>
<td>No</td>
</tr>
<tr>
<td>Joycity Shanghai</td>
<td>2010</td>
<td>85,000</td>
<td>7</td>
<td>1,200</td>
<td>Regional</td>
<td>No</td>
</tr>
</tbody>
</table>

5.2.3 Summary of Shanghai shopping center development

Start real shopping center development later than developed countries and region – As introduced in beginning of this section, Shanghai start to introduce shopping center development from late 1990s. This comparing to western developed countries is 30-40 years late. On one hand, Shanghai is following the trends from western countries including the retail economy, but on another hand, Chinese cities including Shanghai have its own characteristics when it comes to retail development due to Chinese government in a long time had not deregulated its old retail laws and regulations.

Different shopping center format comparing to developed countries and region – In Shanghai, as seen from Exhibit 5-4, most of the regional shopping centers in Shanghai are connected to the public transportation system especially to subway system and with many levels. This is different from U.S.A and Europe, but similar to Hong Kong. The reason for it is same to Hong Kong, because the encouragement of public transportation by government. High traffic pressure has convinced Shanghai government to put all effort to develop the subway system and bus system. This has leaded the shopping center development to a new way comparing to western countries.
5.3 Shopping center development in Beijing

5.3.1 Beijing macro overview

Beijing, as a municipality under direct administration of the central government, it has six urban districts, six suburbs and four counties. Beijing is recognized as the political, educational, and cultural center of China. With a 17.5 million permanent population in 2009, the GDP of Beijing was 1,200 billion RMB which accounted for 68,000 RMB GDP per capita. Exhibit 5-5 below shows that for the past eight years, Beijing keeps very high increase and growth for the GDP, income and consumption. In fact, in China Beijing has the second largest GDP at city level after Shanghai. As China’ capital, Beijing is home to 98 of China’s top 500 companies. (Beijing Statistic Bureau, 2010) It is a “must” for major corporations and banks, this has to thank to the heavy concentration of government authorities and regulatory bodies.

Exhibit 5-5 Per capita GDP, Income and Consumption Beijing 2002-2009

(Source: CEIC)
Car ownership in Beijing is very high, with more than 40% people can access to car. (Synovate, 2010) The high number of total automobiles in Beijing are causing a lot of traffic jams everyday. Because of it, government on one hand start to limit the car plates and on another hand to speed up the construction of public transportation facilities such as subway system, bus routes etc. By end of 2015, 14 lines will be built and put into operation.

The urban planning of Beijing has made the north part of the city much more developed than the south part. The city circled by few ring roads and it appears a square shape. “Poor people are living in the south and rich and important people are living north” – this is an old traditional habit existing in Beijing for hundreds of years. So majority public facilities are located in north part of Beijing and also most of the population is living in the north part. Due to the less and less land resource, Beijing from 2009 started to put more effort on south part development.

5.3.2 Beijing shopping center overview

Similar to Shanghai, Beijing has also past through the previous mentioned five steps to come to nowadays retail development level. As mentioned previously in this paper, Beijing city is much more developed in north part comparing to south part. This also can be applied to the shopping center development and distribution in Beijing. From Exhibit 5-6, we can easily find that most of the retail projects are locating in north of Beijing and there are very few projects in south. In Beijing, now it is transition period from department store to shopping center. Department stores are still the mainly players on the market while the development of shopping centers is also catching up rapidly.
Exhibit 5-6 Beijing retail projects destruction map

(Source: Author surveyed and produced by Mapinfo.)

There are a lot of department stores, and they mainly located in the city center of Beijing. Meanwhile, more and more regional shopping centers have been being construction and they are spreading out at the board of the city. Those regional shopping centers are close to the city expressway, out of town and few of them also have connection to subway lines. Beijing is imitating the American way of shopping center development and city growth. The main regional shopping center status has been summarized by author into the Exhibit 5-7 as seen from below:
Exhibit 5-7 Main regional shopping center in Beijing

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of opening</th>
<th>Gross Leasable Area sq.m</th>
<th>Floors</th>
<th>No. parking</th>
<th>Concept</th>
<th>Public transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oriental Plaza</td>
<td>2001</td>
<td>96,000</td>
<td>6</td>
<td>400</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>Beijing APM</td>
<td>1999</td>
<td>56,000</td>
<td>6</td>
<td>599</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>Joycity Xidan</td>
<td>2006</td>
<td>65,000</td>
<td>9</td>
<td>500</td>
<td>Regional Expressway+subway</td>
<td></td>
</tr>
<tr>
<td>ShinKong Place</td>
<td>2008</td>
<td>117,000</td>
<td>8</td>
<td>600</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>Viva Plaza</td>
<td>2009</td>
<td>90,000</td>
<td>6</td>
<td>350</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>SOLANA</td>
<td>2009</td>
<td>105,000</td>
<td>4</td>
<td>600</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>Golden Resource</td>
<td>2003</td>
<td>220,000</td>
<td>6</td>
<td>5000</td>
<td>Regional Expressway</td>
<td></td>
</tr>
<tr>
<td>Harbor City</td>
<td>2004</td>
<td>88,000</td>
<td>5</td>
<td>700</td>
<td>Regional Expressway+subway</td>
<td></td>
</tr>
<tr>
<td>Aeon Beijing Int'l Mall</td>
<td>2008</td>
<td>120,000</td>
<td>3</td>
<td>2000</td>
<td>Regional Expressway+subway</td>
<td></td>
</tr>
<tr>
<td>Beijing Raffles City</td>
<td>2009</td>
<td>30,000</td>
<td>6</td>
<td>500</td>
<td>Regional Expressway+subway</td>
<td></td>
</tr>
</tbody>
</table>

(Resource: Author collected from site visits)

5.3.3 Summary of Beijing shopping center development

Similar project format to Shanghai, but different to U.S.A and Europe – As described previously for the shopping center format in Shanghai, Beijing shopping centers are very similar to it. With many levels and recent built, most of the shopping centers in Beijing do not have as many car parking as the projects in U.S.A and Europe.

Less convenient connection to public transportation comparing to Hong Kong – Hong Kong and Shanghai those two cities share one similarity that most of the shopping center projects have good connection to subway etc. But in Beijing, the most of the shopping center projects have poor connection to the public transportation system.

Unconspicuous appearance of internationalization – As same to Shanghai, shopping center development in Beijing is now trying to learn from developed countries and region. Some of the projects in Beijing now provide a lot more car parking spaces due to the customer needs and also because learning from developed countries’ projects.
5.4 Trends of shopping center development in China

5.4.1 Continue to grow and boom

Despite the current problems mentioned in previous section of the history of shopping center development in China that some shopping centers are experiencing as a result of the industry’s rapid growth in recent years, the longer term prospects for the Chinese shopping center industry are good and many new shopping centers will be constructed. As stated before, according to Guo (2008), shopping centers account for less than 10% of the total retail sales in China, which is a much lower percentage than in other markets. Additionally, China’s ongoing economic growth, increasing levels of household income, changing lifestyles and growing population create a very favorable environment for the growth of the retail and shopping center industries. As China’s infrastructure develops, there should be many opportunities to build new shopping centers, not just in larger cities but also in medium-sized and smaller cities. There are 3,052 cities and counties in China, and among them there are more than 310 cities with a population of over 200,000 by end of 2010 - a great opportunity for shopping center development. Provided the industry returns to sound operating practices and avoids ill-considered expansion that results in market saturation, shopping centers should continue to generate good returns for investors.

5.4.2 More international competition

More and more international shopping center developers are entering China market such as Inter IKEA Center Group, Auchan Center Developer, and Aeon and so on. Those companies will bring a big competition to the local Chinese shopping center developers. The new entering to China of international shopping center developers also provides many strategic partners they had before in other countries than China. Those strategic partners will most likely follow the center developers to this new market like China if they don’t have stores in China yet. So local Chinese developers
again will suffer from the leasing competition because usually the strategic partners will have priorities to enter their previous cooperated centers instead of entering those Chinese shopping center projects.

5.5 Problems of shopping center development in China

In China, real estate developers have been developing residential, office and industrial projects for a long time, so they are full aware of the important factors for those developments from design, marketing, selling and management. But due to the shopping center business has not yet been on the market too many years, people are still looking for and trying to learn the right way to do the business of shopping center development in China.

From what I have described in the previous chapters in this paper, the describing the shopping center development in developed countries and region – U.S.A, European region and Hong Kong, as well as the introduction of shopping center development in China, there are a few important and serious problems have been summarized in the following paragraphs in this chapter. Those problems are what currently in China the developers shall pay more attention to are not enough to cover all the areas, there will be a longer way to go for the local developers to be more professional regarding shopping center development in China, and this requires for more people to be involved in the discussion of this topic. The retail is detail, there always have areas that could be improved to be able to better service for both the tenants in the center and the important customers when they are doing shopping in the center.

In this chapter, I also have summarized the un-structural interviews made to some people working in shopping center development business in China to discover the problems of shopping center development in China. The interviewees are:

1. Hu S., Lease Manager in shopping center industry
Those problems which will be discussed in the following paragraphs in this chapter are not totally separated from each other, they are somehow linked to each other. It is a systematic project to understand the synergies between them, and when in reality developing a shopping center, it is worth to always test and try to have a overview picture of all the items below, because sometime it is a balance because it is not easy to always achieve everything at same time but people can always try to pick up the most important factors which are suitable for each of the specific project development.

5.5.1 Weak concept defining

A good concept plan for a shopping center is very important. The concept of a shopping center not only includes the tenant mix, positioning of the center, but also includes how to plan the clustering and anchor locations, to be able to have better customer flow inside of the center. (Li, 2010) A bad concept can easily lead to a bad performance. It will take a lot of time and budget to change if it happened, and it is difficult to compete with others on the market and take good market share in their catchment areas.

Shopping centers in China have not been paid much attention to the concept development from the beginning of the development. This is due to the lack of experience and also due to the limited knowledge of the catchments areas of the center. Cloud Nine shopping center, which is located in Zhongshan Parking area in Shanghai, is a good example for this. This project was opened from 1997, from the beginning, the center planned as a pure high end fashion mall without any food & beverage offering, but this had not brought the center towards a success. Five years later, in
2002, the center’s management team started to re-position the center from a high end fashion into a fast fashion only with a few high end fashion in the mall, and also because the center is surrounded with a lot of office building, the project from 2002 started to offer more and more food & beverage stores which in the end has been approved to be a correct strategy and have leaded the project to be successful now. (Qi, 2010)

5.5.2 Poor dimensioning

Center size needs to be carefully decided from the beginning. Retail sales now can be estimated to be very low for a shopping center, but with the increase of income and spending, also can because of the shopping center becomes more and more popular, the center can in future to host much more visitors. This requires for an extension possibility to be considered from the beginning of the planning phase. And on another hand, a center can not be too big if there is no enough tenants and market to support this.

Regarding parking number, most of the relevant projects are suffering from the lack in enough parking spaces. All figures in previous chapters can show that in China the parking ratio of projects are far less than European projects and projects in U.S.A, but keep same levels to projects in Hong Kong. As mentioned in this paper, the European projects normally have 30-40 car parking spaces to be planned for 1,000 square meters gross leasable areas. But in China, most of the built projects only kept a parking ration between 10-20 parking spaces per 1,000 square meters. And some people from the beginning of the center planning thought the car ownership is still not high enough as that in Europe and U.S.A, so why shall we in China invest money on building more car parking? But the facts happening towards many of shopping center projects in China are telling us that it is crucial to have many car parking spaces. The lack of parking number is seriously impacting on the total number of visitors, fewer visitors means less turnover for the center of course in the end the developer will
receive less rent income from all tenants. (Waerden, 1998)

The reasons why developers don’t build too many parking are varied and different from each other, the main reasons are because of developers are always trying to save cost, don’t expect that car ownership in China especially in Tier one and Tier two cities could be increasing so rapidly.(Hu, 2011)

5.5.3 **Weak design**

Design is another “popular” problem for shopping center development in China. Lots of projects are not well designed both commercially and technically. It is easy to find centers with too limited ceiling height which is not comfortable for customers’ visiting, but also it is a issue when there is new tenants who require for certain ceiling height due to the commercial needs. Also many projects’ shop fronts are designed to be closed – not welcome to customers.

Technical good design means the center has a design which can bring the necessary technical needs but at low cost both during construction and in operation phases and periods. (Qi, 2010) But there are many projects in China don’t have good technical solutions such as have not considered the sustainability, green planning etc.

Regarding the design, some projects in China have problems with the traffic design. A good accessibility for customers is very important because this brings customers the first impression of the center. But it is pity that some projects are not well designed regarding this – weak public transportation connection, weak connections from public roads etc.

5.5.4 **“Quick money” model**

“Quick money” model – the “Quick money” model means that developers are
developing projects by dividing it into small units and meanwhile also sell all units to the individual investors to be able to have quick cash back from the investment. (Li, 2010)

Mingfa group is an example who sells units instead of having long term investments. As mentioned before in this paper, the group now has two dead malls – one is in Wuxi city in China, another is in Xiameng city in China. Those two projects have good locations in terms of both accessibility and catchments area, but they are not working at all and have become dead when after built. All the units are empty. The empty units are already sold out, but without any tenants. I have made interview to Mr.T who is the development manager there when I was visiting the malls, Mr.T (2010) has stated that the main reason for the failure of the projects is not only because the weak design, but also because of the wrong strategy that the company had adopted from the beginning – selling units.

Selling units is not good for long term investment. This model is bad for showing and taking responsibilities to the tenants from developer perspective. It will be very difficult for the operation team to manage the center. A long term good investment of shopping center should always not lose the control of the units and also shall not sell any units – only lease out.

5.5.5 Government weak commercial planning

The weak planning of commercial projects from government will bring unhealthy competition to the market and also cause a lot of inconvenience to the people who are living in the surrounding communities of the projects. Imagine that every one or two kilometers close area there is a shopping center planned by the government, for sure in the end none of the built shopping center will have good business, this will not be good for the developers trying to have long term investment and provide long term good services.
The land zoning in China is strictly controlled by the Chinese government. (Qi, 2010) According to Qi (2010), the land zoning in China includes commercial, residential, and industrial etc. The commercial plot can be built both retail and office, but the zoning of the plot will not have a clear statement of what percentage of retail or office shall be built. So once the developer won the bidding of a commercial plot then it is the developer who can decide the mix percentage of the retail and office for the project. So in China a lot of developers are very free to decide by themselves without having too much influence from government or relevant authorities. This in lots of cases would bring unhealthy competition to the market and also will not be guaranteed for the quality of the projects. So in the end, the consumers will be hurt because they don’t receive good services and the in this case the life quality have been brought down.

5.5.6 Unprofessional shopping center management

Bad shopping center management leads to low performance of the shopping center, which will have the worst impact on tenants, customer as well as shopping center developer. But you see a lot of centers in China no matter in Tier one, Tier two or even in small cities, there exist many operation problems. Some of them have problems with daily facility management which of course will bring both tenants and customer bad indirect or direct impact when they doing business or shopping in the center. Center marketing is also a “popular” problem. The centers often do not put a certain enough budget into the yearly center marketing, this causes the center not to be well known and sound in the public, resulting people and tenants pay low attention and interest to the center.

Leasing is one of the most important items from the daily operation of a center, because this will decide how much income under what conditions the center will have. It is easy to see some leasing manager always trying to achieve higher rent but paying less attention to the handing over conditions of the premises handed from landlord to
tenants – in some cases this bring problems because the conflicts between tenants and landlord regarding the premises conditions due to the unclear signed agreement. All those have to be very clearly written in the lease agreement.
6 Improving Suggestions

Basing on the problems stated in chapter five, there are some improving suggestions of the shopping center development in China to be discussed in this chapter. All the ideas of the suggestions are from the comparison between shopping center business in developed countries & region and China. There are limitations of the suggestions, for example the suggestions are more like qualitative description and sometime it is difficult to make sure that those can 100% to be implemented. More quantitative studies of each of the items below could be carried out in the next stage of this paper.

6.1 Governmental well-planned commercial projects

As mentioned in previous chapter, a good commercial projects planning from government is crucial to avoid bad unhealthy competition between projects, but provide the local needs to the community. It is very good to have considered utilities, roads, public transportation etc. from the early planning stage, which in future will help a lot for both shopping center business and the local community daily life.

To be able to have a good commercial projects planning, the government can do things as shown below:

**Understand what the market allows** – Understanding what market needs and allows always comes first when government put down a white paper and start to plan the commercial projects within certain area. The potential living population, roads, public utilities, schools, hospitals etc. always need to be thought in a broad picture at an early stage. Also government planners shall look into the existing supply of each retail categories, do the research for each of the supply by thinking about if they are too little or it is already over supplied within the planned area. Only by understanding all above factors then the planners can decide the location, size and also define retail category of the commercial projects within certain areas.
Set up relevant laws and regulations – In order to guide the retailers entering the market healthily, it is worth for government to set up clear regulations and laws regulating different retailers to enter market. For instance, the law could define a minimum distance between two hypermarkets in order to keep good competition environment and make sure that each of the hypermarket can get enough market to support their business and survive. This type thinking and logic could also be introduced to other retail categories such as electronics, cinema even for fashion.

Sufficient infrastructure planned – Shopping centers are big machines and engines which normally attract a huge number of people depending on its size, concept and the offering. For regional and super regional shopping centers, the high number of visitors will cause a big pressure to the surrounding traffic, utilities. So the government planners in the beginning of the commercial projects planning shall already start to think and define the concept, size of the center and also do analysis about the visitors and demand of all different infrastructures.

6.2 Long term business model

A good shopping center developer will always design their shopping center for a long term use in terms of flexibility of extension, car parking number, technical solution which usually target for low energy cost etc. As discussed in previous chapter, in China, developers want to have quick money they sell units, which in the end will bring a lot of problems regarding management. A good long term business model can bring of course a good foundation for future management, and also can be very good for keeping good relations with all tenants.

To be able to have a good long term business model, shopping center developers may consider the following items:

Think about the premises from beginning – Every project, from the beginning of
the planning stage, developers have to be aware of that shopping center business is a
long term business because it requires for good long term relationships to be kept both
between tenants and customers. Both of them will ask for high quality services which
will significantly impact on the rental level and customer satisfaction. So why not
think from the beginning for a long term perspective?

Find a good financial way to support the long term project – It is understandable
that developers sell units because they have financial pressure and requirement. So to
be able to have the long term business model, shopping center developers have to
have a good financial way to support the long term project. In this paper, I will not
discuss in detail for the topic, but in general, developers can work together with bank,
trust and probably future REITS in China.

Design a shopping center for long tem use – A long term use of a shopping center
project requires for a good long term commercially technically solutions for the
project. Commercially long term use could include the design of a future extension
possibility, be flexible to change the premises etc. Technically good solutions include
installation of grey water system to recycle treated waste water for toilet use, rain
water collection system, use solar heating panels for water heating up, use high
efficiency equipments etc. A long term use project always needs to carefully consider
all possibilities for building a good sustainable green building.

6.3 A professional way of shopping center development

To have a systematic professional way to develop shopping center is a key for the
success. By looking at all real estate industry over the world, we do see there are lot
of big differences regarding the understanding and the practice of the shopping center
development process. Retail development as its own typical attributes requires a full
process which can define the needs from both tenants and consumers to be able to
have better service to those two clients from a shopping center developer perspective.
To be able to have a good workable process for a new development of a shopping center, hereby I summarize the items as below:

**Sufficient market study** – a sufficient market study before the investment of a new shopping center is important. Only by doing this the investor can understand the market needs. So in the end the developer can understand what as from a developer point of view can build and offer to the market.

To be able to carry out a good market study, I have received a lecture presentation from Centrumutvekling in 2008 who is a leading shopping center consultant in Nordic countries in Europe. In the lecture presentation there is a market analysis model which can extensively explain how to do market analysis for establishing a new shopping center. Here I introduce the full process of it:

- Basic macro economical factors: population of the city, GDP, Retail sales, etc.
- Retail Competition: existing ones and future ones
- Market Area Delineation: Primary, Secondary, Tertiary
- Population in Different Catchments Areas
- Consumption of the population in different catchments areas: divided into daily goods, clothing, durables and leisure goods, catering
- Retail Purchasing Power: Current and Future, Total and in different statistical category (daily goods, clothing, durables and leisure goods, catering)
- Retail Sales Potential: by using experienced market share for different statistical category in different catchments areas to get the retail sales potential
- Required Retail Space: Use different statistical category retail sales potential divided by average sales per square for different category retail sales, and then sum them up

The consumer study also can be carried out at the early stage to be able to understand what people like or dislike and this will help a lot for the concept defining process in the next step.

**Good concept defined and planned** – By having understood the market in different catchments areas of the planned center, the project planners will then need to consider the tenant mix, positioning for the future center. This very much links to what is missing in the market and how the developer can suite the needs for the potential consumers within its catchments areas. On one hand, a full offering can make the center more competitive and interesting even though there already have a lot similar competition on the market. On the hand, too big size requires for bigger investment from the developer then of course the developer will have bigger financial risks. So this will require the developer to have clear mind of the positioning of the center by carefully looking at the competition, market needs etc.

**Pre-leasing activities** – Pre-leasing needs to be carried out from the very stage of the center development, because this can help secure the future tenants which means income for the center, also this can bring a lot of convenience to the design of the shopping center.

Pre-leasing can be started once the concept and positioning of the center defined. A concept design of the project will help the pre-leasing activities. The priorities of tenants are also important. It is good to start with anchor tenants then move to the small size tenants. Normally the big anchors pay very low rent by comparing to the small size ones. Also because of the index of the rental increase for anchors is very low according the market practice. So leave the small tenants to the year before
opening but have anchors signed before that will give the center the biggest profit.

**Find strategic cooperation** – For the shopping center developers it is important to have some strategic tenants which have long term cooperation with. This will benefit both the tenants and developers because once the strategic agreement signed then in future there will be much less coordination works need to be done and this can also secure the expansion for both.

For shopping center developers, long term cooperation with anchors such as hypermarket, cinema, electronic stores is crucial. Developers need to understand what those anchor tenants need and what are their requirements regarding location, size, technical requirements etc. Only with those deeply understanding and then the long term cooperation can be carried out. Besides anchors, shopping center developers could also try to have long term cooperation with those middle size units such as fashion, entertainment etc. By securing this, the risk for the investment of the new planned center can be minimized.

**Good design both commercially and technically** – The good shopping center needs a good design from the beginning and the design fulfills what market needs and what the developer wants to provide to both tenants and customers. The design of a shopping center needs to take care of both commercial part and technical part. A good commercial design not only means the size of the center, the number of car parking are sufficient and to meet the demand, but also requires the designer to pay attention to the traffic organization, shop fronts of the stores etc. The center also needs to be designed technically meet the requirement from center operation, tenants and the society. It is a trend that more and more centers are adopting “green design” which means use green energies such as solar power etc. to be able to reduce the environmental impact from the project. A good technical design will also make sure for long term perspective the project will provide the most efficient lifecycle cost for maintaining the project during the daily operation.
**Good shopping center operation** – Operation, which includes leasing, marketing as well as tenant coordination, decides half of the success of a center. Good operation need to have overall control of the center, which means when signing with tenants, it shall be very clearly stated that what tenants can do and what tenants can not do. To be able to have a good operation, above mentioned factors from leasing to marketing also to tenant coordination need to be at an outstanding good quality level. Operation team need to carefully treat customer and try best to provide best convenience for them. Operation team of a shopping center can also have the involvement in the planning phase of project, because in this way the center can be planned to be suitable for future use and to avoid that the mistakes the center management team met before – learn from previous projects.
7 Conclusions

This paper has looked into the good experience of shopping center development from developed countries and region by basing on the theories of shopping center development. With the comparison between current shopping center development situation in China and the previous discussed developed countries and regions, a focus on the problems and a few improving suggestions of shopping center development in China has been described in this paper. Through the research in this paper, the main conclusion can be described as below:

A shopping center is a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, typically with on-site parking provided. The centers are targeting to provide high quality of services to both tenants and customers.

There are five main attributes of shopping center have also been discussed and pointed out in Chapter 2 – the literature review part in this paper:

- Shopping center has different retail category to meet different shopping needs
- Shopping center is becoming multi-functional not only for shopping but also for living
- Size of the center is subject to the market
- Enclose area providing good shopping environment
- Each unit run by different retailer but whole shopping center normally runs by one management company

Shopping center development is becoming very important for the modern society
because there are a few main findings in the paper from four perspectives: Economic perspective, social perspective, urbanism perspective and environmental perspective.

Comparing to the shopping center development in the western developed countries and region, China is facing a lot of challenges and problems. Some of problems existing for the shopping center development are because the short time of shopping center has being existed in China, the developers pay little attention to the concept development, dimensioning of both size and the car parking number during the planning phase of the center. “Quick money” model has been observed being a big problem in China among shopping center developers due to the financial reason for the developers. The government also shows to be lack in experience when it comes to the commercial projects planning which will in future decide the competition on the market.

To be able to increase the capabilities of developers for the shopping center development in China and also to increase the quality of the future shopping centers in China, there are a few improving suggestions have been raised in chapter six in this paper. To be in short, both developers and Chinese government need to change. Shopping center developers need to improve their way of the development which requires for an extensive model including market analysis, concept development, leasing and operation. Also developers can not only pay attention to the quick cash back from the investment, to be able to run a successful shopping center it demands center developers to have a long term view of the investment. Besides the developers’ change, government also has to improve their capabilities when it comes to commercial projects planning, to be able to provide a health market environment for the shopping center development.
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