

Development strategy of retail properties

Changing lifestyle beyond simple consumer trend

Analysis

By Kim Sun-young

In advanced economies such as the United States, Japan, and Hong Kong, where shopping malls in various forms have been thriving, "mall-ing," in which consumers enjoy both shopping and leisure activities, has been established as a lifestyle beyond a simple consumer trend. Christian Mikunda, a trend analyst, has described a shopping mall as "the third space" after the home and workplace. New words such as "mallgoer" and "mallwalker" have emerged along with malling.

Arrival of lifestyle center

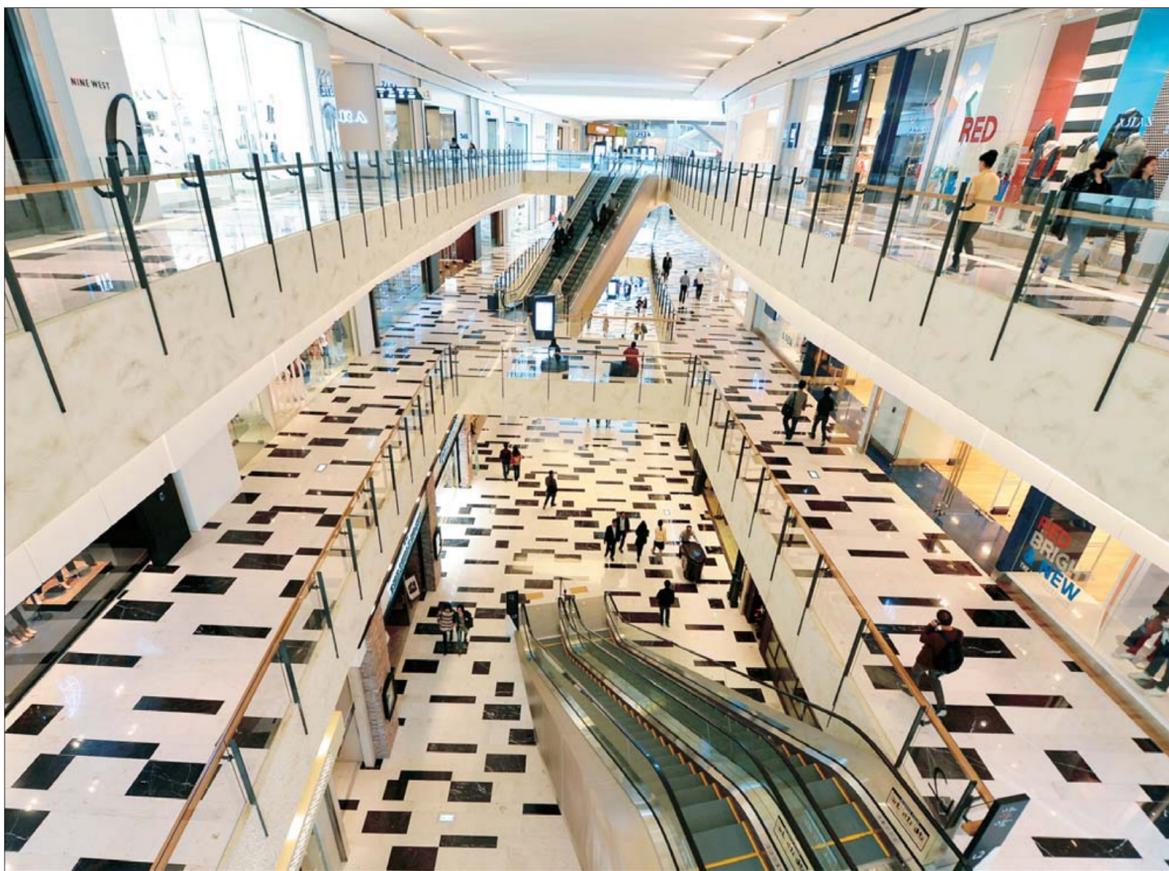
Building-type shopping malls that target middle class consumers who had moved to the suburbs first appeared in the 1950s in the United States and the 1970s in Japan, when the penetration rate of self-owned automobiles exceeded 60 percent. The development of shopping malls in both countries peaked after 1988 when GDP per capita reached over \$20,000 in the United States and Japan respectively. There was an upsurge of landmark-type multi-use developments that combine a city-center hotel, a department store, and a movie theater. Roppongi Hills in Japan and the Grove in LA, an outdoor-shopping-center-turned former residential village in Los Angeles, are examples of malls built during this period.

Lifestyle center in Korea

Shopping malls that emerged nationwide during the 1990s in Korea were mere single high-rise buildings accommodating stores that sold a limited category of merchandise. Real estate developers sold each store lot to individuals and quickly collected investment returns. In the 2000s, when the penetration rate of self-owned automobiles reached 60 percent in Korea, multi-use shopping malls such as the COEX and Central City were introduced. The supply of multi-use shopping malls has accelerated ever since. Recently developed malls include I-Park Mall at Yongsan Station (private sector investment project); BitPlex at Wangsimni Station (private sector investment project); City7 Mall at Changwon; Time Square at Youngdeungpo; and D Cube City, Sindorim. Korea was 80 years behind the developed countries in introducing a department store within its boundaries. However, the time gap lessened to 10 years in the case of shopping malls.

The fast introduction of shopping malls has resulted from the rapidly changing needs of Korean consumers and the equally rapid market responses. With lower barriers to global industries, global lifestyle and consumer culture have been transmitted at eye-widening speed. The needs of Korean consumers have matured, so it is now impossible for retailers to attract customers by fulfilling their simple desire to purchase goods as they did in the past. As Korean consumers are now more aware of family-centered culture and leisure than before, the necessity for multi-use space that allows enhancing of time value is growing.

Shopping mall development in the early days focused on expansion of hardware such as enlarging building size and adding new floors, but recent developers of retail centers consider, in addition to physical expansion, expansion of software (functions) which



People shop around at the International Finance Center (IFC) mall, a shopping center in Yeouido, Seoul, which opened on Aug. 30. The number of multi-function shopping centers in Korea has been increasing lately.

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includes providing various services related to health, beauty, education and entertainment. Such a change in trend continues. One-time visitors revisit a shopping mall to benefit from customized services, hence contributing to vitalization of the shopping mall. The vitalized shopping malls accumulate strengths that surpass those of existing competitors while consistently reflecting their loyal customers' needs, and maintain this virtuous cycle until it is superseded by new competitors.

Change of shopping mall developers

While real estate developers or construction companies have

been the main players of shopping mall business in Hong Kong, the United States, and Japan, a few leading companies in Korea's retail business have sustained the initiative as shopping mall developers with their competitive advantage in merchandising and their established supply chain. As development focus shifts from those of existing competitors while consistently reflecting their loyal customers' needs, and maintain this virtuous cycle until it is superseded by new competitors.

The recent real estate development boom nationwide has triggered participation of mid-size companies and real estate devel-

opers that own developable land in shopping mall development. Kyungbang's factory site in Youngdeungpo, Seoul, was redeveloped as Time Square, a massive-scale lifestyle center that consists of offices, a hotel, a department store, a shopping mall, a luxury goods hall and a movie theater. Daesung Industries' ex-cold briquette factory site was reborn as a multi-use lifestyle center that comprise of a hotel, a department store, a concert hall and high-rise apartment condos reformulating the skyline of the neighborhood. Other companies that have large land holdings and are capable of funding have been constantly reviewing relevant

shopping mall business opportunities.

Multi-use developments

Although retail giants and other diverse business entities are participating in development and operation of multi-use commercial complexes, their operation results are anything but evenly positive. What differentiates facilities that are relatively more successful from those less successful is not only their location. While the most substantial factor in determining real estate value is inarguably the location, the success of a lifestyle center relies heavily on its size, function, and operational capabili-

ty to secure a virtuous cycle.

Lack of operational capability renders shopping mall developers vulnerable to external and internal risk. Garden Five, unlike Kyungbang's Time Square that consigned its operation to Shinsegae, sold each store lot to individuals, revealing the weakness of a sell-out-type shopping mall compared to lease-out-type ones. Daesung Industries, the developer of D Cube City, underwent headquarter asset restructuring to weather the storm of financing shopping mall development, the sales of developed facilities, and investor promotion. The developer of City7 Mall in Changwon is an archetype of Korean developers that can hardly keep up with demand for the minimum investment capital of shopping mall development. Indeed these recent examples had been affected by the overall economic and real estate market recession. In some cases, there may have been decline of regional markets or a shift of existing market centers to a newly developed center. Errors of demand projection might have occurred during the early development process of master plans. Lack of merchandising capability or an insufficient supply chain may be accountable for some unsuccessful operation results. However, the most critical factor for success is obtaining operational know-how.

It takes an average of three years for even retail giants that locate and open new stores based on an accurate analysis of regional markets, to see stabilized sales figures at newly opened stores. During these years, product sellers and consumers apprehend reciprocal needs under mutual communication. The result of this communication is unveiled by the product seller's sales performance. Retail stores are the commercial real estate assets that require operational capability to support a virtuous cycle; such a characteristic is even more salient in multi-use developments that include hotels. Facilities of multi-usage entail a multi-operational structure. A rise in asset value cannot be anticipated unless strategic operations that combine the real estate business with retail business come into full action.

Engine to jumpstart virtuous cycle

Competition among shopping centers is intense in Korea with its limited size of developable land, decline of consumption due to the aging population, and the prolonged economic recession. To differentiate from their competitors, shopping centers develop their own culture with particular themes, set up a unique and attractive environment, and provide walking trails and parks to extend visiting hours and increase revisit ratios. Individuals of various consumer categories will stroll around shopping centers and spend money and time in a generous manner while recognizing shopping centers as "the third living space" after their home and workplace, only if shopping centers accurately analyze and respond to consumer demand, and cater to the demand for change with corresponding spaces and services.



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