



SHOPPING CENTRE DEVELOPMENT – THE MOST ACTIVE CITIES GLOBALLY

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OVERVIEW

An unprecedented 32 million sq m of shopping centre space is currently under construction across the world, representing a 15% increase year-on-year. Development activity is heavily concentrated in emerging markets, most notably China, which as home to four of the five most active markets in 2012, and half of all shopping centre space under construction, is the most active development market in the world. Other markets experiencing substantial expansion include, Istanbul, Abu Dhabi, Bangkok, Mexico City, Hanoi, Kuala Lumpur, Moscow and St Petersburg. In contrast, there was little development in more mature U.S. and west European markets.

Whilst cross-border retailers continue to seek prime space, much of the new space in emerging markets is in peripheral areas of large cities, appealing only to domestic retailers. In many cities, the mismatch between demand and supply has led to increasingly high rents in prime areas and an high vacancies elsewhere.

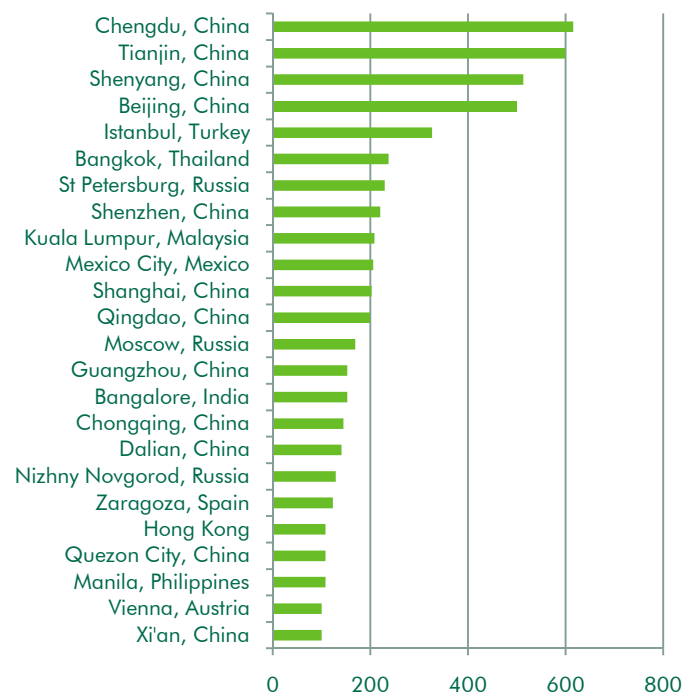
INTRODUCTION

This is the second year that CBRE has measured the level of shopping centre development in 180 of the world's major cities. The survey was based on new centres of over 20,000 sq m and excluded retail warehousing and factory outlet centres. The definition used in this analysis is set out in full at the back of this report. The ViewPoint provides a snapshot of the most active shopping centre markets globally and identifies the key development trends in these locations.

2012 WAS THE YEAR OF THE DRAGON

Unsurprisingly, given the huge amount of space under construction at the end of 2011, China retained its position as the most active development market in 2012. Four Chinese cities were in the top five in terms of new space completed last year. Leading the way were Chengdu (616,000 sq m in four centres) and Tianjin (600,000 sq m in five centres) with Shenyang and Beijing not far behind. Although Tier 2 cities such as Chengdu, Tianjin and Shenyang already have a large number of shopping centres, they also have very large populations, ranging from 8-12 million, which still provide opportunities for new development. This is also true for the much larger Tier 1 cities, with Shanghai, Guangzhou (in addition to Beijing) all seeing significant new development last year. It is in the suburban areas of both Tier 1 and Tier 2 cities, as well as the new CBDs in smaller cities where shopping centre development is now focused.

THE MOST ACTIVE SHOPPING CENTRE DEVELOPMENT MARKETS IN 2012 (000 SQ M COMPLETED)



Cities with more than 100,000 sq m of new shopping centre space in 2012
Source: CBRE Research

Local developers with little or no experience in building and running shopping centres are developing the majority of new supply in these emerging locations and as such vacancy rates can be high. The difficulty in attracting retailers has also prompted owners to consider other uses, with leisure attractions becoming increasingly popular. For example, the 100,000 sq m scheme in the Riverside Landmark development which is due to open in Chongqing in 2015, will include Madame Tussauds and Sea Life. In contrast, there are fewer development opportunities in prime locations which has led to a shortage of available space. International retailers, whose expansion ambitions are firmly focused on the best locations are therefore having to pay higher rents to secure the space they want.

Europe – most of the Action is in the East

Outside of China, Istanbul and St. Petersburg were both in the top 10 most active markets globally. But these were two of only 20 cities in Europe (there were 93 in the survey) where new shopping centres opened last year. And only seven cities saw the completion of two or more centres. Nevertheless, 10% more new space opened in the survey's European cities in 2012 (1.71 million sq m) than in 2011 (1.55 million sq m). More notable was the fact that a high 72% of centres built in 2012 were in eastern Europe. Istanbul (in 5th place globally) was the most active market. Seven new centres opened, including Marmara Park (94,000 sq m) and the Trump Towers (41,000 sq m). St. Petersburg (229,000 sq m in six centres) and Moscow (169,000 sq m in seven Centres) were not far behind.

Development has not completely dried up in the West. The region's largest urban shopping, Puerto Venecia in Zaragoza, Spain (123,000 sq m) opened its doors in September 2012 (93% let), three new centres opened in Paris, and in Italy, there were new openings in Rome, Milan, Naples and Palermo. These were the exceptions, however, with no new shopping centres in 76 out of the 93 European cities in the survey. This reflects the maturity of the shopping centre market in much of Europe, the challenging economic environment and the lack of available finance to fund new projects. Increased competition from the online sector has created further uncertainty among the development community and is not helped by the low level of occupier demand which is firmly focused on the biggest and best retail locations only. What is not in question however, is the lack of right type of space in the most sought after locations. In the UK, for example, there are proposals to extend many of the regional out of town centres by introducing new retail and leisure tenants to reinvigorate the centres and enhance their overall appeal to consumers.

Managing and improving existing assets has never been more important in Western Europe. It is also becoming a key differentiator in CEE with much of the original shopping centre stock in the region starting to show its age. This is particularly true for the 1st and 2nd generation schemes.

The other cities in the Top 10 for 2012 were Bangkok, Kuala Lumpur and Mexico City.

EMERGING MARKETS WILL CONTINUE TO DOMINATE NEW DEVELOPMENT IN 2013-2015

The BRIC markets are all highly active (Brazil slightly less so), as are major cities in other emerging markets, most notably: Kuala Lumpur (Klang Valley), Abu Dhabi, Hanoi, Mexico City and Bangkok. The most active 'mature' market is Melbourne, Australia with 300,000 sq m under construction - a lowly 28th position in the global ranking.

China has the largest pipeline

Chinese cities continue to dominate development activity. Seven out of the top 10 most active development markets globally are in China, with Chinese cities accounting for half of all the shopping centre space under construction in the 180 cities surveyed. Heading the list is Chengdu where 2.9 million sq m is currently under construction, which is more than the combined pipeline in the survey's 86 European cities (excluding those in Russia and Turkey). In second place is Tianjin where over 2 million sq m is currently under construction, with Shenyang, Chongqing, Wuhan, Guangzhou and Hangzhou all due to deliver over one million sq m over the next three years.

... but other Asian cities are also highly active

In India, substantial new development in 2011 was followed by a quiet year in 2012 as developers delayed completions to prevent over supply pressure. However, new legislation permitting foreign direct investment (FDI) in single brand and multi brand retail (essentially enabling foreign retailers to have a majority stake in their India operation) was approved last year and is encouraging retailers to expand throughout the country, which in turn is helping to kick start development. In New Delhi, for example, there are eight schemes under construction.

Development is also percolating down into smaller cities such as Chennai, Bangalore and Hyderabad, where 14 centres, totalling 686,000 sq m, are currently being built. Large urban populations, a growing middle class with higher incomes and an increased preference for 'quality' retail is driving the development boom in these locations.

Kuala Lumpur is 9th in the global rankings. New residential development in the townships of Klang Valley continues to provide opportunities for shopping centre development. As a middle-income nation with a young population, growing affluence and exposure to Western brands, Malaysia is proving to be attractive to both retailers and investors. This has translated into prime retail rental growth of 6% CACR since 1995 whilst prime yields have fallen from 7-8% five years ago to 5.5% currently.

Vietnam has an immature retail market but this is changing rapidly. Hanoi, for example, currently has less than 300,000 sq m of shopping centre space but there is 767,000 sq m under construction in 11 centres making it the 14th most active market globally. Strong economic growth (retail sales grew by 16% in 2012), increased urbanisation and the lack of modern retail space are driving the surge in shopping centre development. International retailers are absolutely key to the tenant mix, accounting for 70% of all new space over the last two years.

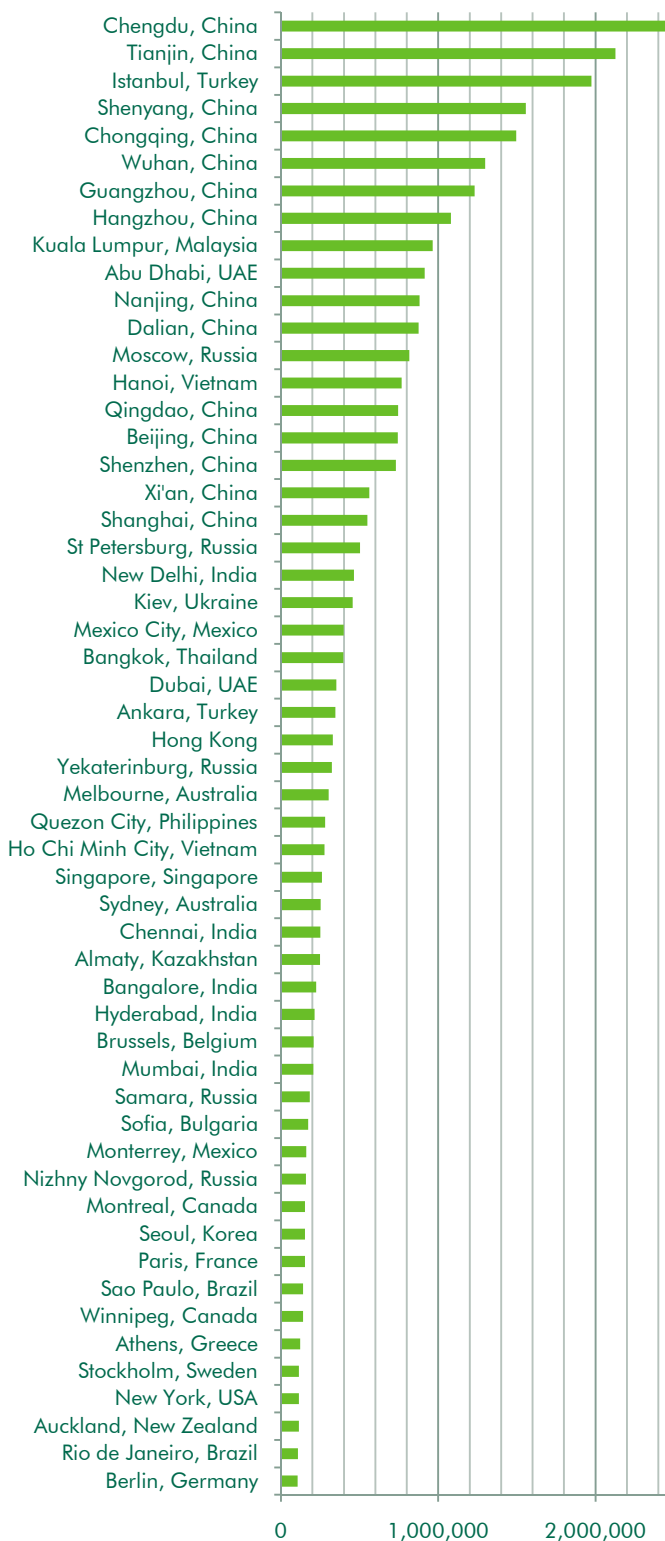
... as are other emerging markets

In the Middle East, Abu Dhabi has taken over from Dubai as the most active development market in the region, with 825,000 sq m under construction in nine schemes. Both cities have seen huge growth in their retail economies due in part to the boom in shopping centre development but also to the rapidly expanding tourist industry. More recently, new shopping centres have become larger with leisure attractions becoming an increasingly important part of the mix. Bowling, cinemas, ice rinks and amusement areas are now commonplace and have created 'destination' centres that have also become social meeting points, particularly among the young local population. This has created a new dynamic with shopping centres evolving into a place to be, not just to shop.

In Europe, Istanbul will be the most active development market in coming years with 32 centres currently under construction. The vast majority of the new space will be in peripheral locations where the city is expanding with developers focusing on mixed use residential/retail schemes which often also include offices and an hotel. The inner city will undergo substantial redevelopment over the next decade, as a raft of buildings are due to be demolished (badly built/too old/no permit). This should provide limited opportunities for small scale retail developments in the central area. Whilst Turkey's largest city dominates new development other cities are also active, including Ankara where five centres are due to open over the next three years.

Europe's only other highly active development market is Russia, which like Turkey, is benefiting from strong economic growth and rising incomes. Moscow has the largest development pipeline, with some 815,000 sq m due to open over the next two to three years.

SHOPPING CENTRE SPACE UNDER CONSTRUCTION (SQ M)



Cities with more than 100,000 sq m of new shopping centre space under construction as at January 2013

Source: CBRE Research

The city has a large number of shopping centres but there is still scope for new development. There is a particular shortage of high quality schemes (and high street space) that appeal to international retailers. Avia park (236,000 sq m) and Galaktika (90,000 sq m) will alleviate some of this pressure and are among nine schemes that will be built over the next two years – all outside the CBD and most outside the TTK (Third Transportation Ring). In St Petersburg, new residential areas supported by enhanced road and rail links are driving shopping centre development, with 0.5 million sq m under construction. Most of the new retail space is in suburban locations and rarely attracts international retailers who, in general prefer prime areas in the city centre. Nevertheless, some eight new retailers opened in St Petersburg last year, whilst the new centres in Moscow helped to attract around 20 new retailers to the market last year. Cities with a population around or above one million inhabitants also have a strong pipeline of new space, of which Yekaterinburg (323,000 sq m) is the most active.

In neighbouring Ukraine, Kiev has 445,000 sq m under construction in 8 centres, making it the 4th most active development market in Europe. A combination of strong growth in real incomes and consumption and a serious under supply of quality retail space is driving the shopping centre development boom which in turn attracted a record 40 new international retailers last year.

The lack of new supply in the United States is not an oversight - there is not much there. The chart on page three shows one market from the U.S., New York City. However, the supply there is not a function of the fact that this is the biggest market in the U.S., rather these are new projects in the Borough of Brooklyn. In stead of living in the sprawling suburbs in which their parents settled, a younger demographic of workers is choosing to live in key urban areas. In turn, retail construction is following in the locations favoured by these younger workers, even as older malls in more far-flung locations struggle with occupancy. In Canada, retail construction has decreased year-over-year, even though most markets are in short supply of retail space. Montreal, Winnipeg, Toronto and Calgary are seeing significant retail construction activity in the form of new malls and expansions, however, this activity pales in comparison to the most active markets globally.

CONCLUSION

An unprecedented 32 million sq m of shopping centre space is under construction in the 180 cities covered in this survey, some 15% more than at the same time last year. Development activity is heavily concentrated in emerging markets, most notably in Tier 1 and Tier 2 Chinese cities, but also in the other BRIC countries, Turkey and cities as diverse as Abu Dhabi, Bangkok, Mexico City, Hanoi and Kuala Lumpur.

In these markets, a growing middle class, the urbanisation of large cities and consumer demand for better quality retail is fuelling the growth of new shopping centres. At the same time, retailers, including many from western Europe and North America, are clambering to take advantage of these new opportunities. A key feature of the global development market is that the vast majority of new space in emerging markets is in the peripheral areas of the large cities, appealing only to domestic retailers. Therefore, international retailers continue to find it difficult to access the prime space they want, even in the cities with highly active development pipelines, whilst the mismatch between demand and supply has led to high vacancy rates in some centres.

A second key theme, present for some time in mature markets but now a feature of emerging markets also, is the focus on developing a customer experience that is not just about shopping. Creating a destination where people want to spend time is the holy grail for new large scale shopping centres around the world, with major leisure attractions and mixed uses playing an important role in delivering this goal. Recent research conducted by CBRE in Europe among both consumers and retailers suggests that these types of centres will also be best placed to meet the growing challenges of online retailing.

SHOPPING CENTRE DEFINITION

For the purposes of this analysis, shopping centres have been defined as purpose-built and centrally managed schemes with a gross lettable area of over 20,000 sq m. The analysis includes only new centres and major extensions (20,000 sq m and above) to existing schemes. Retail warehousing and factory outlet centres have been excluded. Whilst every effort was made to provide data on a consistent basis there are some differences by country and region. In Asia, the analysis includes retail shopping malls and standalone department stores over 20,000 sq m. It excludes department stores which lease space as tenants within larger shopping centres. In North America, the analysis included regional malls, lifestyle centres, and power centres and also includes all extensions to existing schemes (albeit there was very little new space under construction).

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