Opportunities and Challenges of Shopping Centre Development in China: A Case Study of Shanghai

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This study examines the development patterns of Shanghai's emerging shopping centre system and Chinese consumer response to this new retail concept, in order to assess the challenges and opportunities afforded to shopping centre developers and investors. The study reveals that lack of effective planning and a transparent approval mechanism has led to irrational development patterns. An absence of professional shopping centre developers and domestic REITs makes it difficult for shopping centres to grow and mature. Nonetheless, at the present time, international developers still have opportunities to enter the market through acquiring existing or approved projects, though they must be wary of acquiring condominium malls. The importance of this Shanghai case study is twofold: (a) it contributes to the existing body of knowledge about retail trends in the emerging markets in Asia; and (b) it generates research findings useful for the ICSC corporate members who are contemplating investment opportunities in China.

The shopping centre was the most successful land use, real estate, and retail business concept of the 20th century (Beyard & O'Mara, 1999). It dominated the retail landscape in U.S. and Canadian cities for nearly 40 years from the 1950s to the late 1980s, during which there were more shopping centres than movie theatres and more enclosed malls than cities (Kowinski 1985). Shopping centres were so pervasive that they served the entire metropolitan city in a hierarchical system, consisting of: (a) neighbourhood, (b) community, (c) regional, and (d) super-regional centres. The large centres not only served as shopping destinations, but also offered a wide range of dining, entertainment and recreation experiences. This booming development, at the same time, created an industry of shopping centre developers and Real Estate Investment Trusts (REITs), responsible for developing and managing most of the large shopping centres.

By the early 1990s, major technological innovations in the distribution system led to the emergence of another retail revolution, the "big-box store," a large-format specialized store. These innovations included highly computerized goods-tracking systems and inventory control, enabling the generation of instant databases and direct communications with manufacturers (Hughes & Seneca, 1997). In less than ten years, big-box stores and their associated "power centres" (i.e. planned cluster of big-box stores) have become the leading retail formats in the Western retail system. At the same time, they are seen as the cause of the "graying" of regional and super-regional shopping centres, and the demise of the department stores that were the most important mall anchors in North American cities (Kmitta & Ball, 2001; Doucet, 2001).

Not all industry leaders admit that graying of shopping centres has occurred, but shopping centre development indeed slowed down considerably in the 1990s in both the U.S. and Canada (Kmitta & Ball, 2001; Kim, 2004; Doucet, 2001).

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Many shopping centres have experienced change or even loss of anchors, a phenomenon described as "retenanting" of shopping centres (Christopherson, 1996). The result is a decline in investment opportunities and suppressed investment for many shopping centre developers and REITs (Wrigley & Lowe, 1996). For example, in the last 15 years, only one regional shopping centre (e.g. Vaughan Mills Mall) was developed in the entire Greater Toronto Area, Canada's largest urban market with 4.3 million consumers. Further, this shopping centre is very different from its cousins developed in the 1970s and the 1980s, as it has no conventional department stores. All of its anchors are either factory outlets or smaller versions of big-box stores. Today, wary developers are experimenting with smaller and less costly open-air shopping centres known as "lifestyle centres" ("Traditional Mall," 2004).

In contrast to its declining popularity in the United Sates and Canada, the shopping centre has only recently been introduced in China as a retail innovation and as an emerging trend in retail change. China did not have real shopping centres until the mid-1990s, but since then, there have been considerable developments and construction. In fact, the development boom has led to competition among the large cities of Beijing, Shanghai, Guangzhou and Shenzhen to build the country's, or even Asia's, largest shopping mall (Li, 2004; "China's Largest Shopping Centre," 2004). Many other municipal governments enthusiastically welcome investment, especially in the form of foreign direct investment, in large shopping centres to raise the profile of their cities.

The seemingly high demand for shopping centres in Chinese cities presents golden opportunities for both developers and investors. Recognizing the investment potential and business opportunities for its corporate members, the International Council of Shopping Centres (ICSC) held its 12th annual Asia-Pacific Conference and Exhibition in Shanghai in 2004. While many Western investors are watching the trend closely, those that have participated in shopping centre development in China are almost exclusively from Southeast Asia, particularly Thailand, the Philippines, Singapore, Hong Kong and Taiwan. The only Western investors or developers that have reportedly shown interest are Forester Group, West Development Corporation (WDC), Kimco Realty Corporation, and Morgan Stanley of the United States, as well as Canada's Triple Five. It seems that Western investors are losing the first-mover opportunities, but they may need more time to study the still precarious market before committing a significant amount of capital to commercial property development. They fear the risk of heavy losses in the form of "sunk costs," costs that are committed by a firm to a particular use (in this case, the shopping centre) and are not recoverable in the case of exit (Mata, 1991). The lack of knowledge of the Chinese market, and of a clear understanding of how to manage the risks involved, is the major barrier that foreign investors must overcome.

Indeed, there are several challenges for shopping centre development in Chinese cities. First of all, shopping centres are being developed simultaneously with big-box stores. This means that the Chinese cities skipped the era of shopping centre dominance that lasted four decades in North America. Therefore, from the beginning the Chinese shopping centres have been facing strong competition from big-box retailers. While shopping centres provide a comfortable and safe shopping environment, merchandise prices are typically higher than in the discount big-box stores. It is unclear how the mainstream, price-conscious Chinese consumers respond to this contemporary format of retailing. In addition, because private automobile ownership is still relatively low, even the large urban markets may not be able to support the super-regional shopping malls that usually require suburban locations and extensive spatial markets.

Despite the boom in shopping centre development, China does not yet have many experienced professional shopping centre developers, nor does it have REITs. Most domestic developers lack the required capital and expertise in shopping centre development and management, and rely on bank loans to finance the development, and as such, are vulnerable to fiscal policy changes imposed by the state government. In order to make a quick profit, some developers lease only the anchor retail spaces, and sell the smaller units to independent retailers or to individual investors, turning the centre into a condominium complex (Cheng, 2004). Consequently, the management's ability to control the desired tenant mix is therefore lost, which can lead to undue competition within the centre, poor performance, and high vacancy rates. Unable to hold the properties for an initial period of loss, some developers are eager to find buyers, particularly international buyers, to bail them out.

Although China as a recent member of the World Trade Organization (WTO) has removed all remaining barriers to the entry and expansion of foreign retailers (as of December 11, 2004), the political environment for shopping centre development may still be unstable. In late 2003, the state government implemented several drastic measures to curb the country's overheating economy, one of which was a nationwide auditing of large-scale development projects, whether under construction or in planning. Some projects, including shopping centres, were subsequently suspended. The consequences of such drastic policy change are clearly illustrated in the case of one Philippino developer who began construction of a 330,000 m^2 enclosed mall[1] in the southwest suburb of Shanghai in 2002. One year after construction commenced, after the concrete structure had already been completed, the project was suddenly suspended, reportedly because the mortgage that the developer had secured from a state bank was no longer forthcoming as a result of the state audit. The state government also ordered that all municipalities make and announce their own land use bylaws for commercial facility development, and that their municipal plans be revised accordingly (Ministry of Commerce, 2004). Under the new policies, future development of large facilities (100,000 m^2 or more) must go through a public hearing, where pertinent government officials, industry leaders, interested retailers, and representatives of the affected communities are invited to comment on the business proposals. If more than two thirds of the audiences oppose the proposal, the project would be automatically rejected. While international developers and investors are accustomed to this long established practice in their home countries, it is uncertain how this practice will be implemented in the various Chinese cities and whether further changes will be introduced in the near future.

[1] Promotion of project was done under the name Rainbow Mall.

The purpose of this study is to assess both the opportunities and challenges of shopping centre development in Chinese cities, using Shanghai as a laboratory. Shanghai is chosen for the case study because it has, in the past 20 years of economic reform, developed a robust and sophisticated retail sector. Known as the business capital of China, and the centre of consumption, it now leads all of China in shopping centre development, with 37 in operation and another 30 or so under construction or in planning. Some of the developments readily fall into the category of super-regional shopping centres by Western standards.

The importance of this Shanghai case study is twofold: it contributes to the existing body of knowledge about retail trends in the emerging markets in Asia; and it generates research findings useful for the ICSC corporate members who are contemplating investment opportunities in China. This empirical research is undertaken to achieve three objectives: (a) to examine the emerging shopping centre system with regards to its development patterns that include geographical distribution, physical form, tenant mix, and sources of investment; (b) to survey the level of consumer acceptance of shopping centres as a new retail concept; and (c) to assess the challenges and opportunities afforded to shopping centre developers and investors.

Data Sources

Despite the existence of the Shanghai Shopping Centre Association, there are no centralized sources of information for shopping centers, such as a shopping center directory, which is common in most Western countries. This poses two challenges for the current study: (a) identifying the shopping centres to be included for analysis, and (b) compiling a data base of shopping centers from scattered sources.

The authors of this paper decided to adopt the definition of shopping centres standardized by the Urban Land Institute (ULI), but with two modifications. Specifically, the shopping centre is defined as "a group of architecturally unified commercial establishments built on a site that is planned, developed, owned and managed by an operating unit related in its location, size, and type of shops to the trade area that it serves" (Beyard & O'Mara, 1999). The first modification is to include condominium shopping centres, because they represent an important form of development in China and Southeast Asia. The second modification is to exclude on-site parking as a defining characteristic of shopping centers, for the reason that most shopping centers in Shanghai and other Chinese cities are designed for shoppers who do not own automobile and rely on public transit.

Data were obtained from field surveys and personal interviews, which were conducted in the July of 2005. The researchers for this study, including graduate assistants, made site visits to all the existing shopping centres in Shanghai and compiled a comprehensive shopping centre database, including: (a) number and type of stores, (b) vacancies, (c) number of floors, (d) physical form of the shopping centre, (e) accessibility, (f) shuttle bus routes, and (g) profiles of investors/developers. The data were assembled into a database and analyzed for size distribution, tenant mix, and geographical coverage.

To measure the level of consumer acceptance, a customer survey was conducted at seven shopping centres, three in the central area and four in suburban districts. Permission to conduct the survey on the premises of these malls was obtained with the assistance of the Shanghai Shopping Centre Association. The questionnaire contained 15 questions, designed to solicit five types of information: (a) socioeconomic and demographic profile of the shoppers, (b) consumption patterns, (c) shopping behaviours, (d) consumer satisfactions/dissatisfactions with shopping centres, and (e) popularity of shopping centres vs. hypermarkets[2] and retail strips. The survey was conducted over the span of three days; Wednesday, Friday, and Saturday. Participants were intercepted as they were exiting the mall, to ensure that they were able to answer as many questions as possible. At each centre, 40 to 50 complete responses were obtained.

In addition, personal interviews with officials of both the Shanghai Bureau of Commerce and the Shanghai Shopping Centre Association, in an effort to obtain information about the regulatory mechanisms currently in force. Further, a wealth of information was mined from a number of reliable websites, particularly *Shanghai Commerce News*[3] and *Retailer Linkage*[4].

The Shanghai Context

The City of Shanghai consists of 19 administrative divisions (see Figure 1) with 13.2 million people spread over 6,340 km^2 of land. Nine urban districts form the central area, while the other nine districts and a county form the suburbs. The central area occupies only 5% of the total land of Shanghai, but contains 47% of the city's population. Population density in the central area is therefore extremely high, with 21,700 persons per km^2, compared to 1,100 in the suburbs (see Figure 2).

Two decades of reforms and economic stabilization have nurtured an affluent consumer market in Shanghai, a necessary condition for retail growth. While the Chinese census never collected information on family income, a reasonable estimate can be derived. In 1978, the average wage for full-time employees in all economic sectors was 670 yuan (Shanghai Statistics Bureau, 2001). Assuming each household had two full-time workers, which was common at that time, average household income was estimated at 1,340 yuan. Multiplying this average household income by the 2.91 million households, the size of the Shanghai consumer market in 1978, estimates 3.92 billion yuan. By 2000, the average wage had increased to 18,500 yuan. Assuming each household had 1.7 full-time workers (derived from the total number of employed workers and the total number of households), average household income was estimated at 31,450 yuan and the size of the consumer market at 149.6 billion yuan, or $18.7 billion, 37 times the figure 22 years ago.

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2 A hypermarket, also called a supercentre in North America, is a combination of a supermarket and a discount department store under one roof.

3 www.commerce.sh.cn

4 www.linkshop.com.cn

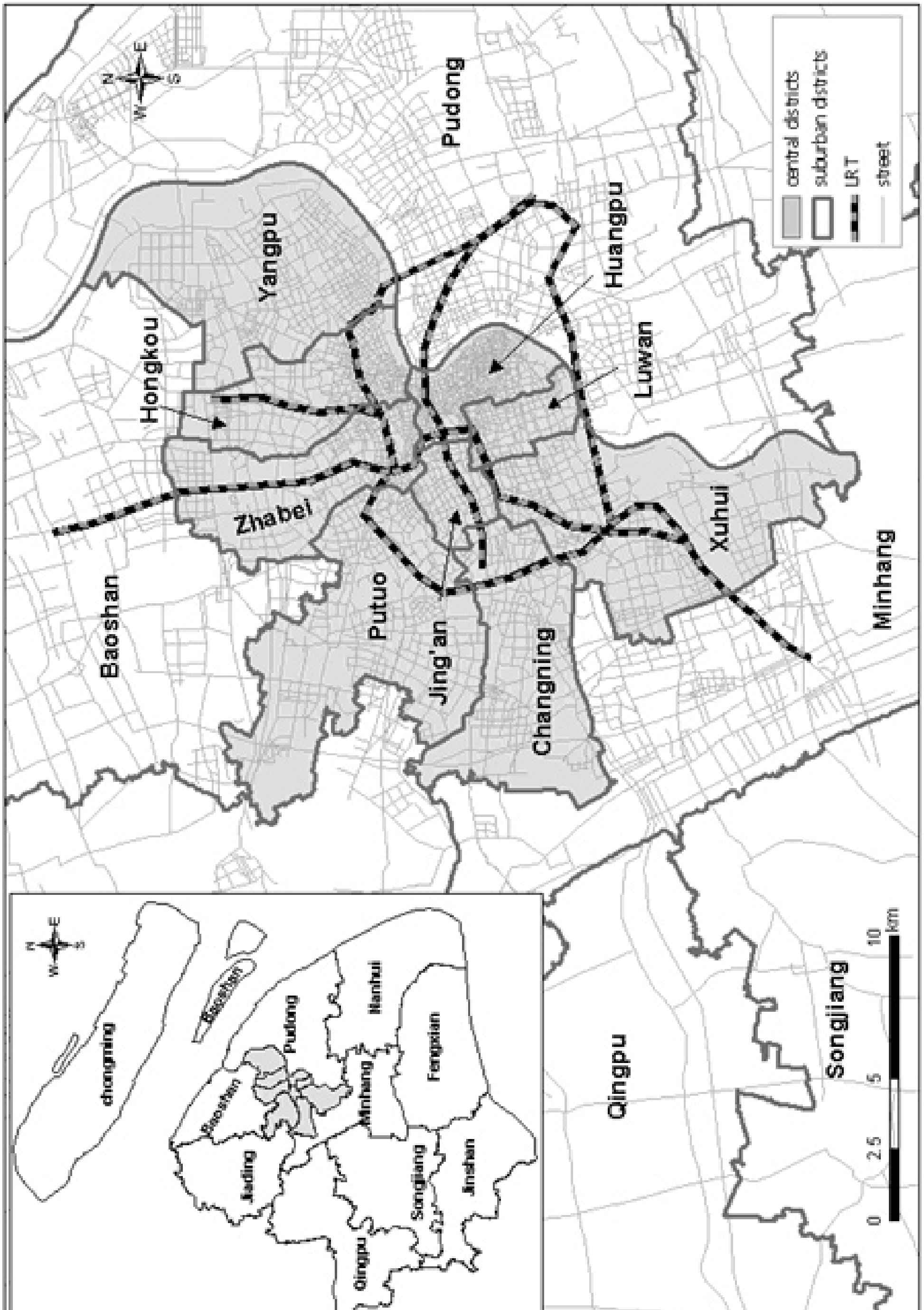

Figure 1. Administrative divisions of Shanghai.

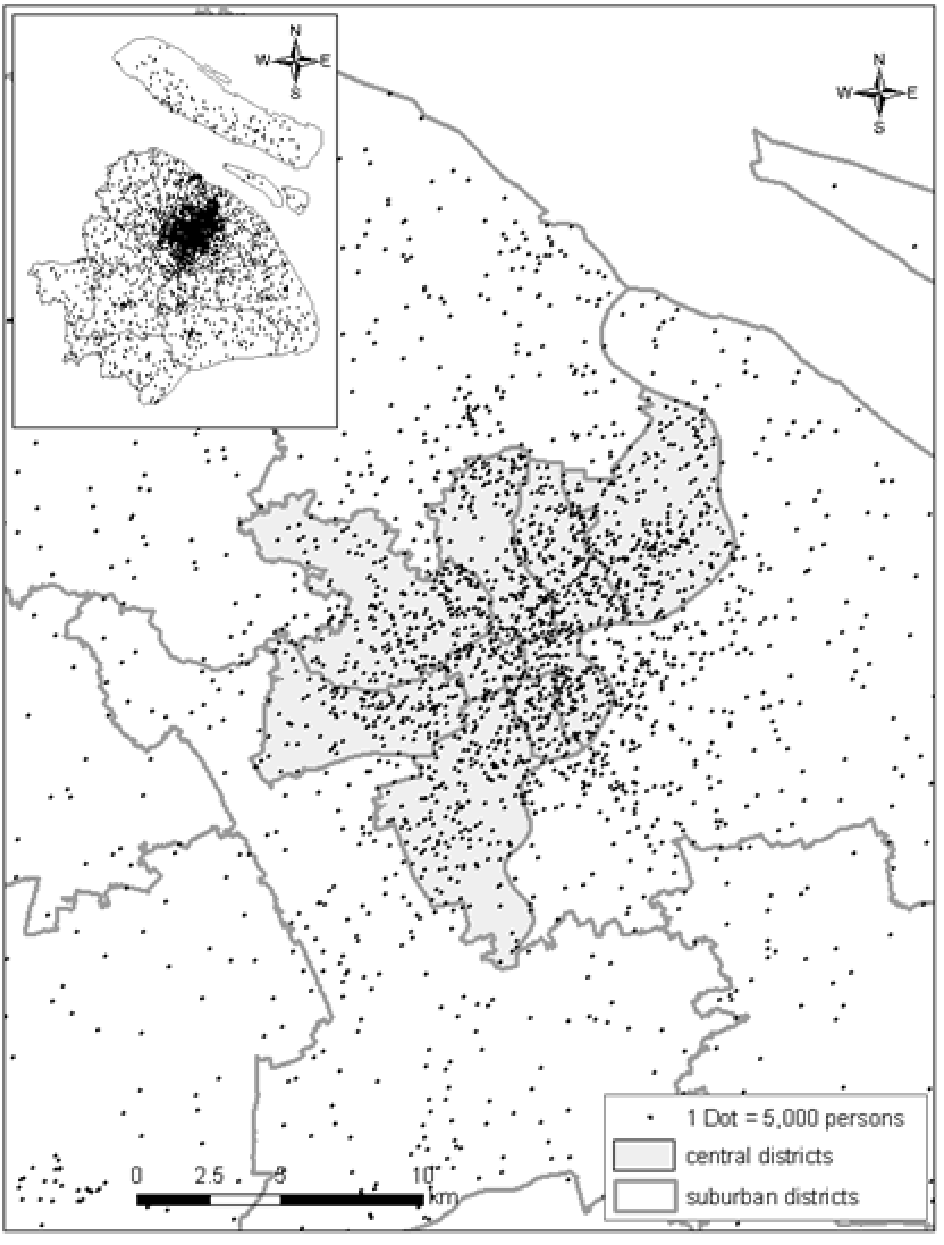

Figure 2. Population distributions in Shanghai, 2000.

With the substantial rise in household income, per capita expenditure increased in all consumption categories, with the total expenditure having increased 15 times between 1980 and 2000, from 565 yuan to 9,043 yuan[5]. This period also witnessed a number of changes in consumption patterns and shopping behaviours beyond the overall increase in expenditures (Shanghai Academy of Social Sciences, 1997). For instance, as a proportion of income, expenditure on food and clothes (i.e. necessities) decreased significantly, from 55% to 43% and from 14% to 4.3%, respectively. Consumers now spend larger shares of income on housing, household appliances, medical care/health products, education, transportation, and communication (Wang & Zhang, 2005). By 1999, per capita living space increased to 10.2 m^2, almost a 50% increase from 1992 (Shanghai Economy Yearbook Compilation Committee, 2000). As families moved into new and more spacious apartments, many of them spent heavily on furnishing and interior decorating. Households in Shanghai are also replacing their older appliances with newer models. Examples of such new purchases include large screen or high definition TVs, programmable washers, Freon-free refrigerators, digital cameras, and DVD players. On average, 17% of households purchased a new color TV set in 2000; 9% bought an air conditioner; and about 7% bought a new fridge, a washing machine and a microwave oven. This was the case even though the majority of the households already had at least one piece of each. As many people now have busy work schedules, they buy processed and packaged foods from modern supermarkets. As a result, there are fewer short, daily shopping trips, and more weekly shopping journeys with bulk purchases. It should be noted that the increased purchasing power and the changing consumption patterns generated high demand for new and large retail facilities.

Urban development stimulates retail growth in two ways: (a) opening up new consumption spaces (i.e., new business locations and sites), and (b) reinforcing accessibility to new retail facilities by providing efficient transportation networks. Over the past 20 years, Shanghai has undergone unprecedented urban renewal and expansion. Urban renewal partly relied on the redevelopment of the central area. To make room for new development, both residential and industrial relocation became necessary (Wu, 1999), and many of these old residential and industrial sites were rezoned for commercial use. Unlike the old residential quarters, the new housing projects are well planned, and often have retail facilities of various types, such as supermarket, conven-ience stores (e.g., CVS) and even community shopping centres integrated into the design.

The most significant urban expansion is the development of the Pudong New Area. Prior to its development Pudong was a rural county of 520 km^2 on the east side of the Huangpu River, connected to the central area only by ferries. Planning for its development began in the mid-1980s and was later approved by the state government in 1990. After 15 years of extensive construction, the western portion of Pudong has been transformed into a brand new urban area, a “globally oriented urban space” (Wu, 2003), with the typical features of a world-class city, such as international financial corporations.

To facilitate intra-urban movement and to unify Pudong with the rest of the city, a series of key transportation links were built. Among these are two ring roads

[5] Value is before the cost of living adjustment, due to the lack of data on inflation.

and five Light Rail Transit (LRT) lines (two underground, three on surface), with four more LRT lines currently under construction. In Shanghai, where private automobile ownership is still low by Western standards,[6] the network of highways and rapid transit is conducive to intra-urban shopping flows. Of equal importance, the expanded transportation network has created many accessible locations for the construction of large retail facilities, either adjacent to highway interchanges or near subway/LRT stations.

The Shopping Centre System And Development Patterns

The first shopping centre in Shanghai, Shanghai Square, opened in 1993 on Huaihai Road in Luwan District. During the next three years, the pace of development was slow and project scale was moderate (see Table 1). After 1997, however, development accelerated and projects became progressively larger. The ten-storey, 70,000 m^2 Westgate Mall opened to shoppers on Nanjing Road W (in Jing'an District) in 1998. One year later in 1999, Grand Gateway Plaza with 140,000 m^2 was completed in Xujiahui of Xuhui District, the largest shopping centre in the city at the time. In 2002, the even larger Super Brand Mall (240,000 m^2) opened for business in the heart of Pudong New District. Not long after in 2005, Super Brand Mall was surpassed by the mammoth Summit Mall (320,000 m^2). By the end of 2005, 37 shopping centres were operating in Shanghai, with a total of 2.5 million m^2 of retail space, ranging in size from 7,000 m^2 to 320,000 m^2, with an average of 65,000m^2. Twenty-four of them readily qualify as regional and super-regional shopping centres by Western standards (see Table 2). Detailed development patterns are examined from four aspects: (a) geographical distribution and location patterns, (b) investment patterns, (c) physical form, and (d) tenant mix.

Geographical Distribution and Location Patterns

The 37 existing shopping centres are concentrated in nine districts (see Figure 3). Except for Pudong and Minhang, all the other host districts are part of the densely populated central area. A closer look shows that the shopping centres are concentrated around traditional commercial nodes (i.e. retail strips), and subway and LRT stations. In its 10th Five-Year Plan (2001 to 2005) for Commercial Activity Development, the Government of Shanghai designated eight municipal-level retail nodes and 22 district-level nodes. Most of them are former unplanned retail districts or commercial ribbons anchored by department stores. For example, Nanjing Road E. in Huangpu District, the largest municipal retail node, has been Shanghai's 'main street' for nearly a century. It is anchored by five large department stores. The second largest municipal node, Xujiahui in Xuhui District, is a district of 0.74 km^2 and contains six department stores. Other examples are Huihai Road in Luwan District and Nanjing Road W. in Jing'an District. These nodes have been revitalized and upgraded with shopping centres added to them, due to their advantageous locations in densely populated areas.

[6] On average, only 5% of the households in Shanghai have a car in 2004 (Shanghai Statistics Bureau, 2005).

Table 1

Existing Shopping Centres in Shanghai, 2005

Name of shopping centre	Year of opening	No. of floors*	Total # of units	Vacancy rate (%)	Floor area (m^2)	Type of anchors**
Shanghai Square	1993	6	34	44	45,000	
MM21	1996	4	54	4	42,000	
Westgate Mall	1998	10	95	0	70,000	DS/theatre
Metro City	1998	8	46	0	67,000	
Hong-Kong Plaza	1998	4	48	4	38,000	
Pudong Hymall	1999	3	42	10	40,000	HM
Grand Gateway Plaza	1999	6	330	0	140,000	SM
Qibao Hymall	1999	4	46	2	30,000	DS/HM
Brilliance South	1999	5	131	0	100,000	DS/HM
Longhua Hymall	2000	2	27	0	20,000	HM
Shanghai Times Square	2000	6	86	12	109,000	DS
CITIC Square	2000	5	98	2	34,500	
China Resources Times Square	2001	10	115	31	51,000	
Plaza 66	2001	6	116	2	52,000	
Super Brand Mall	2002	10	70	-†	240,000	DS/HM
Asia-Pacific Plaza	2002	1	450	80	55,000	
Hualian Comm. Shopping Centre	2002	3	99	7	23,000	HM
Maxdo Mall	2002	4	37	5	20,000	
Xinning Shopping Centre	2002	3	161	0	25,000	
Hongqiao Shopping Mall	2002	6	85	0	80,000	DS/SM
Tungtay Leisure Square	2002	3	34	24	7,000	
Wenfeng Mall	2003	4	70	3	84,000	DS/HM
Beethoven Plaza	2003	4	21	33	20,000	
Landmark Shopping Centre	2003	3	73	0	38,000	HM
Millenium Plaza	2003	3	123	60	54,000	
Qibao Nextmall	2003	4	64	41	85,000	DS/HM
Jinhui Plaza	2004	5	34	0	55,000	DS/HM
Metro Town	2004	2	117	6	17,000	
Join Buy City Plaza	2004	9	91	29	92,000	DS/SM
Raffles City	2004	7	127	0	50,000	
New World City	2005	13	400	-†	120,000	DS
Thumb Plaza	2005	3	117	70	110,000	HM
Brilliance West	2005	4	118	0	110,000	DS/HM
Summit Mall	2005	9	700	70	320,000	DS/HM
Brilliance-Shimao Intn'l Plaza	2005	7	89	2	58,000	
CEPA Mall	2005	3	187	61	36,000	

Note. Sources were corporate websites and field work.
* excluding underground floors.
** DS = Department store; HM = Hypermarket; SM = Supermarket.
† Some floors are still undivided; number of vacancies cannot be identified.

Table 2
Typical Gross Leasable Area and Prescribed Trade Areas of Different Types of Shopping Centres in North American Cities

Type of shopping centre	Typical GLA (m2) [a]	Trade area radius (km) [b]
Neighbourhood	4,650	Up to 2.4 (1.5 miles)
Community	14,000	1.6-4.8 (1-3 miles)
Regional	41,800	4.8-11.2 (3-7 miles)
Super-regional	83,600	16+ (10+ miles)

[a] Beyard & O'Mara, 1999, p. 8. [b] Jones & Simmons, 1993, p. 216.

In the last five years, two district-level commercial nodes began to emerge as new municipal-level nodes, Sun Yisen Park in Changning District, and Wujiaochang (Star Square) in Yangpu District, both with grand shopping centres as anchors.

The regional and super-regional centres also tend to be situated on subway and LRT lines, especially at points of interchange. For instance, the Grand Gateway Plaza in Xuhui District is right above Shanghai's largest subway station – the Xu-jia-hui Station; the Summit Mall in Changning District is located above the Sun Yisen Park Station (the interchange of Line 2 and Line 3); Super Brand Mall is only a several minute walk from the Lujiazui Station; and the Join Buy City Plaza is connected to Jing'an Station via an underground path.

It should be noted that subway and LRT lines in Shanghai are laid in such a way that they pass through most of the municipal-level commercial nodes. As such, many shopping centres are located both in a commercial node and at a subway station. This signifies that access to shopping centres heavily depends on public transit, especially rapid transit. Only in the past two to three years did shopping centres begin to appear in suburban districts. Because suburban districts are not as well served by public transit as are central area districts, almost all suburban shopping centres provide their own shuttle buses, free of charge, to bring in shoppers.

Investment Patterns

Table 3 shows that overseas investment has played an important role in the development of shopping centres in Shanghai. Of the 37 existing centres, 24 (65%) were developed with overseas capital. A closer look at Table 3 also reveals that all the overseas investments are from Southeast Asia, particularly Hong Kong (16 centres), Taiwan (5), Thailand (1), and Singapore (2). Participation from North American and European investors and developers is so far absent, though a number of them have reportedly been contemplating entry into this booming commercial real estate market for quite some time. Furthermore, almost all the overseas investors/developers are ethnic Chinese well-connected to Mainland China with good political and business relations with state or local governments.

For instance, Hutchinson Whampoa Real Estate Ltd., the developer of Westgate Mall (see Table 4), is owned and controlled by Hong Kong billionaire Lee Ka-Shing, who is known to be a friend of such state leaders as Deng Xiaoping and Jiang Zemin.

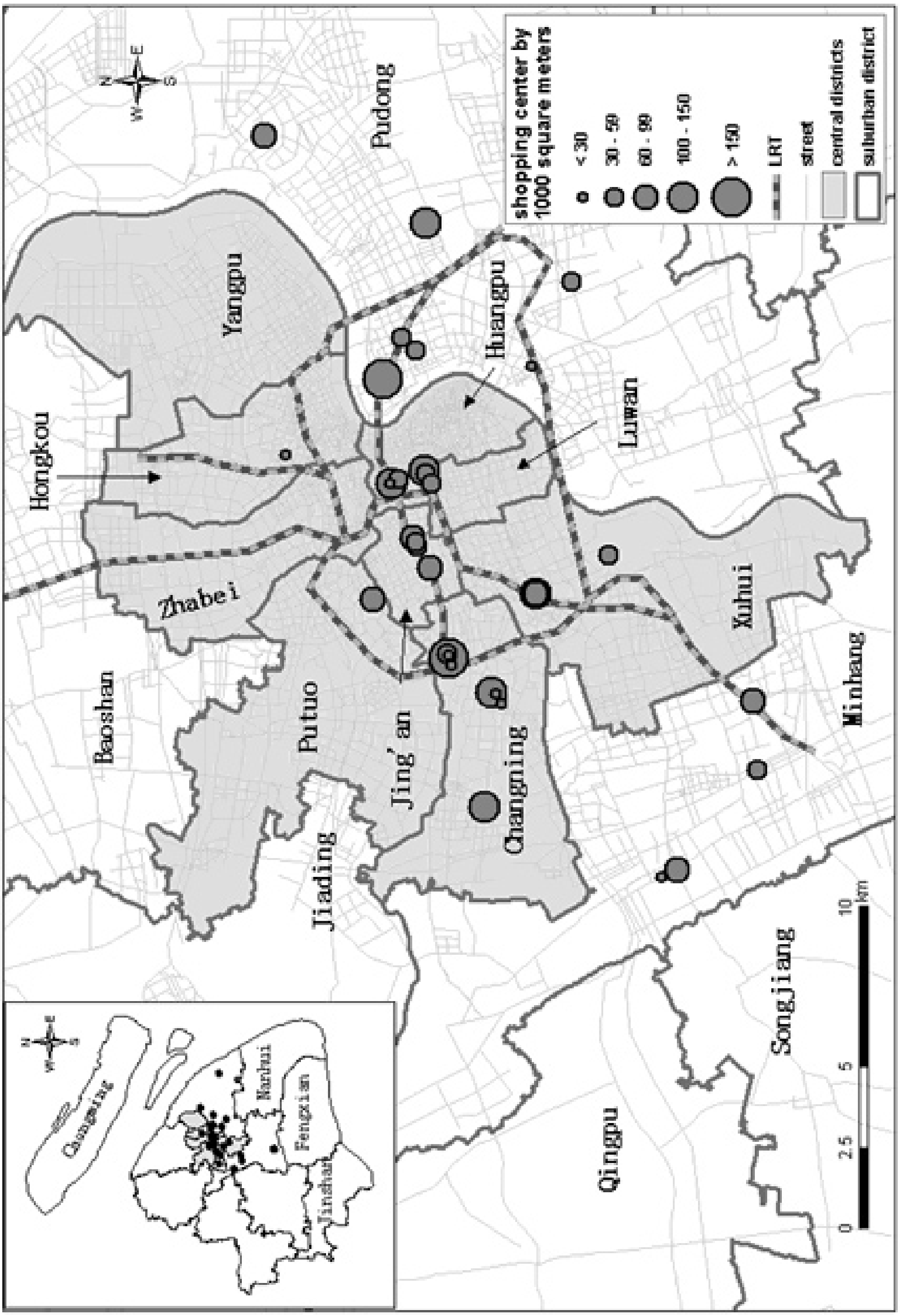

Figure 3. Existing shopping centres in Shanghai, 2005.

Table 3
Existing Shopping Centres in Shanghai by Physical Form and Investment Source

Physical form	Domestic-invested	Overseas-invested
Free-standing	Brilliance South Mall	Friendship Shopping Centre (HK)
	Hualian Community Shopping Centre	Qibao Hymall (Taiwan)
	Asia-Pacific Plaza	Pudong Hymall (Taiwan)
	Wenfeng Mall	Longhua Hymall (Taiwan)
	Millennium Plaza	Tungtay Leisure Square (Taiwan)
	Qibao Nextmall	Super Brand Mall (Thailand)
	Landmark Square	Join Buy City Plaza (HK)
	Jinhui Plaza	Metro Town (HK)
	Brilliance West Mall	CEPA Mall (HK)
	Thumb Plaza	
	New World City	
As podium of office tower (Ancillary malls)	Beethoven Plaza*	Shanghai Square (HK)
	Summit Mall	MM21 (Taiwan)
		Hong Kong Plaza (HK)
		Westgate Mall (HK)
		Metro City (Singapore)
		Grand Gateway Plaza (HK)
		Shanghai Times Square (HK)
		CITIC Square (HK)
		China Resources Times Square (HK)
		Plaza 66 (HK)
		Xin'ning (HK)*
		Hongqiao Shopping Mall (HK&Macau)
		Maxdo Mall (HK)
		Raffles City (Singapore)
		Brilliance-Shimao International Plaza (HK)

Note. Information was compiled by the authors from various sources.
* Podium of apartment towers.

CITIC Pacific Ltd. is a subsidiary of CITIC Hong Kong (Holdings) Ltd., chaired by the son of late Chinese Vice President Rong Yiren. The Rong family is historically rooted in Shanghai and still enjoys close relations with the Shanghai municipal government ("The Red Capitalist Rong Yiren," 2005).[7] Hang Lung Properties is another that enjoys extensive connections in Mainland China. The developer entered China in the early 1990s when real estate prices were at rather low levels and opportunities abundant, and was granted favourable land use rights by the Shanghai Municipal Government in late 1993 to construct two luxury shopping centres, Grand Gateway Plaza and Plaza 66. Even the Thai-based developer of Super Brand Mall, Chai Tai Group, is a business conglomerate owned by an overseas Chinese family. Many of these overseas investors and developers are also known to be generous donors to local governments. For instance, the Chairman of Hong Kong's Shimao Group, a Mainland Chinese immigrant, has donated $10 million in the past ten years for various causes, including $2 million to help Shanghai with its bid for the 2010 World Expo.

Domestic capital began to flow into shopping centres in 1999 from two types of sources: (a) state-controlled joint ventures, and (b) private enterprises. State investment is best represented by Brilliance Group, created in 2003 with the merger of four state-controlled corporations.[8] Brilliance Group established a distinct subsidiary solely responsible for shopping centre development and management, the first known professional shopping centre developer in China. In 1999, one of the four corporations, Shanghai Friendship (Group) Ltd, purchased a defunct department store from the Japanese Yaohan and retrofitted the five-storey building into a shopping centre named Friendship South Mall. In addition to inheriting Friendship South Mall (renamed Brilliance South Mall) and Hualian Community Shopping Centre from another merged corporation called Hualian Group Ltd., Brilliance Group built the Brilliance West Mall and operates a fourth shopping centre named Brilliance-Shimao International Plaza. The Plaza is located in the heart of Nanjing Road E., with retail spaces leased from Shimao Group, another Hong Kong-based developer (see Table 4).

Typical private investors are Wenfeng Group, which is based in Jiangsu Province, and Shanghai Summit Property Development Corporation. The former invested $42.5 million to develop the 84,000m^2 Wenfeng Mall in Pudong New District in 2003 (see Table 1); the latter has recently built Shanghai's largest shopping centre, the Summit Mall. It is important to note that domestic developers in general have little to no experience in shopping centre development. The lack of expertise has subsequently led to many problems, which will be discussed later in this report.

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[7] In addition to CITIC Square on Nangjing Road W, CITIC Pacific Ltd. had developed and owns other large-scale residential and commercial properties in Shanghai, such as Royal Pavilion and New Westgate Garden.

[8] Brilliance Group was created by Shanghai Municipal Government in 2003 through a merger of four stated-owned corporations: (a) Shanghai No 1 (Group) Ltd., (b) Hualian (Group) Ltd., (c) Shanghai Friendship (Group) Ltd., and (d) Shanghai Materials (Group) Ltd., with registered capital of 1 billion yuan ($1.25 billion). Being the country's largest conglomerate in distribution business, the group owns over 7, 000 retail outlets across the country, ranging from department stores to supermarkets, hypermarkets, convenience stores, and shopping centres.

Table 4
Major Overseas and Domestic Developers of Shopping Centres in Shanghai

Developer	Origin	Major business activities	Shopping Centres developed (area, rank)
Hutchinson Whampoa	Hong Kong	Ports and related services, ttelecommunications, property and hotels, retail and manufacturing, energy and infrastructure	Westgate Mall ($70,000m^2$, 13th)
CITIC Pacific	Hong Kong	Iron and steel, real estate development, power generation, transportation, and retailing	CITIC Square ($34,500m^2$, 28th)
Hang Lung	Hong Kong	Property development	Grand Gateway Mall ($140,000m^2$, 3rd); Plaza 66 ($52,000m^2$, 19th)
Shimao Group	Hong Kong	Real estate: residential, hotel, and office	Brilliance-Shimao International Plaza ($58,000m^2$, 15th)
Huarun	Hong Kong	Manufacturing, power plant, real estate, cement, and retailing	Shanghai Time Square (109,000m2, 7th)
Lifestyle International Holdings Ltd	Hong Kong	Department store (SOGO) and other retailing	Join Buy City Plaza ($92,000m^2$, 9th)
Capital Land	Singapore	Commercial and residential property development	Raffles ($50,000m^2$, 21st)
Chai Tai Group	Thailand	Agriculture, communication, retailing, petrochemical, real estate, international trade, and finance	Super Brand Mall ($240,000m^2$, 2nd)
Ting Hsin	Taiwan	Food processing, fast food restaurant, and retailing	Hymall (Longhua) ($20,000m^2$, 32nd) ; Hymall (Pudong) ($40,000m^2$, 24th); Hymall (Qibao) ($30,000m^2$, 29th)
Brilliance Group	Shanghai	Retailing and shopping centre development	Brilliance West Mall ($110,000m^2$, 5th); Brilliance South Mall ($100,000m^2$, 8th); Hualian Community Shopping Centre ($23,000m^2$, 31st)
Wenfeng Group	Jiangsu Province	Retailing: Hypermarket, supermarket, electronic, and shopping centre	Wenfeng Mall ($84,000m^2$, 11th)
Summit Property Development Corp.	Shanghai	Real estate property development	Summit Mall ($320,000m^2$, 1st)
Shanghai Zheng Da Investment Co.,LTD	Shanghai	Property development: Residential, museum, hotel, office, commercial	Thumb Plaza ($110,000m^2$, 5th)

Note. Information was assembled from corporate websites.

Physical Form

There are clear differences in shopping centre development patterns between the overseas and domestic investors, and among the overseas investors themselves. As Table 3 illustrates, investors from Hong Kong and Singapore favour construction of ancillary malls, which form part of a larger complex including office towers, while other overseas investors and most domestic developers tend to engage in development of free-standing shopping malls. For example, both Grand Gateway Plaza and Plaza 66 developed by the Hong Kong-based Hang Lung Properties have twin office towers soaring above them. Westgate Mall is also attached to an office tower hosting many well-known multinational corporations. These investors favoured this form of development for three strategic reasons. First, land cost for building the shopping centre is greatly reduced, because the same land is also used for high-rise office buildings and rent generated by leasing office spaces constitutes a significant portion of the investment returns. Second, each tower houses thousands of office employees, mostly white-collar professionals, who themselves are frequent and affluent shoppers, and experiences in North American cities show that fashion retailers in downtown area benefit considerably from such office employees. Third, as Shanghai becomes an international economic, financial, and trade centre, there will be even greater demand for quality office space in the city. As office towers at strategic locations have great potential for property value appreciation, many of the developers have the intention to sell these commercial real estates to other interested international investors to make a one-time profit and to reduce investment risk in terms of sunk cost associated with shopping centre development.

The Taiwanese developers seem to focus on development of free-standing and community-oriented shopping centres in suburban districts, which could be the result of their inability to obtain favourable land use rights in the central area of Shanghai. In general, investors from Taiwan do not have the same capital, both monetary and political, as those from Hong Kong. Accordingly, they may lack bargaining power for negotiating favourable land use rights. In fact, three of the four shopping centres that were built with Taiwanese investment were developed by the same investor, Ting Hsin International Group, whose core businesses are food processing, fast food services, and retailing (see Table 4). This is the only overseas investor that intends to develop a chain of community shopping centres with a distinct brand – Hymall (e.g. Happy Shopping Mall).

With the exceptions of Beethoven Plaza and Summit Mall, all of the centres that were built by domestic developers are free-standing malls (see Table 3), and excluding New World City, all the free-standing malls are located in suburban districts. They range from flea-market style centres with no anchors (e.g. Asia Pacific Plaza, Millennium Plaza) to full-sized regional malls (e.g. Brilliance West Mall, Thumb Plaza). Completed in 2005, both Brilliance West Mall and Thumb Plaza represent a new trend of shopping centre development. Unlike the earlier centres that are enclosed malls, they are built as semi-enclosed malls with both open-air performing stages and such elegant landscaping and amenities as fountains, wading pools and resting areas, similar to the lifestyle centres in North American cities. In Shanghai, where the average annual temperature is 18°C, open-air malls serve the local citizens very well. More importantly, open-air malls have the potential to greatly reduce utility costs for their owners.

All of the shopping centres in the central area are multi-storey buildings, some 9- to 13-storeys high. An example is New World City, originally developed in the mid-1990s by the government of Huangpu District as an eight-storey department store. Concerned with losing customers to the adjacent Brilliance-Shimao International Plaza and Raffles City, the owner of New World City expanded the department store into a shopping centre in 2005, by adding a 13-storey annex with 50,000 m^2 of retail space. Although touted as a "Far East entertainment hub", the new shopping centre opened in a rush, with no entertainment facilities ready to entertain shoppers.

Tenant Mix

Conventional shopping centres in North American cities, especially regional and super-regional shopping centres, feature anchor stores. The typical anchors are full-line department stores, though some centres also have a supermarket as a secondary anchor. This has been changing in the last decade or so. Some shopping centres have lost their department stores, due to either bankruptcy or acquisition by other department store chains. The vacated spaces are retenanted with factory outlets or smaller versions of category-specific big-box stores. Nowadays, few regional and super-regional shopping centres still have a supermarket as a tenant. In many cases, the supermarkets have been redesigned and relocated to power centres.

A similar trend is observed in Shanghai, where only 13 of the 37 existing shopping centres have a full-line department store as an anchor (see Table 1). Yet, an equal number of centres have a hypermarket as either primary or secondary anchors. Among the hypermarkets are such international brands as Carrefour (French), Auchan (French), Lotus (Thai), and Trustmart (Taiwan). Most other centres do not have an anchor at all. Table 5 presents a generalized store mix for the 37 existing shopping centres, excluding anchor stores. The largest category is apparel, accounting for nearly half of all stores. After that, only four categories account for more than 5% of the total number of stores: (a) jewellery/watches (5.4%), (b) furniture/home décor (5.0%), (c) cosmetics (5.2%), and (d) restaurants (6.2%). While every shopping centre promotes itself as a "centre of shopping, dining and entertainment," entertainment accounts for only 0.3% of all stores, though such businesses tend to occupy much larger areas than most other types of stores, especially fashion stores. Beyond personal services such as beauty salons and spas, shopping centres in Shanghai lack commercial services.

Several explanations can be put forward for the varying tenant mixes in Shanghai's shopping centres. After a short-lived boom in the early- and the mid-1990s, department stores began to encounter fierce competition from the increasing presence of such new formats as hypermarkets and specialty stores. As a result, most of them lost market shares and were unable to recoup their strength. For instance, the developer of Super Brand Mall had a long and unsuccessful search for a department store to anchor its 240,000m^2 facility. In the end, it had to put in one of its own with great reluctance because the department store is not its core business.

Table 5
Generalized Store Mix in the Existing Shopping Centres in Shanghai,

Type of stores	Percent of total # of stores
Apparel	47.5
Restaurant (including fast food)	6.2
Jewellery /watch	5.4
Cosmetics	5.2
Furniture/home décor	5.0
Food stores (including drinks, candy, tobacco stores)	4.7
Electronics/camera	3.5
Other retail	2.6
Beauty salon/spa	2.2
Other commercial services	1.6
Eye glasses	1.4
Sports/fitness	1.2
Books/stationery	0.8
Banks, post office, internet café, printing etc.	1.0
General merchandise	0.8
Drug store	0.5
Entertainment (movie theatre, karaoke, games and fitness)	0.3
Toys/children's clothes	0.1
Hardware	0.1
Vacancies and missing data	9.8
Total	100.0

Note. Data was compiled through field work and excludes anchor tenants.

An additional example is the Grand Gateway Plaza , which had Fu'an Department Store as its primary anchor when the mall opened in 1998. This department store had to withdraw from the mall five years later, as it could no longer absorb any more losses and had to close. The vacated space was subsequently divided for specialty stores. At the same time, the hypermarket has become a popular shopping destination for ordinary Shanghai consumers. With a hypermarket as the mall anchor, all other stores seem to benefit from co-tenanting with it because the hypermarket not only advertises widely but also provides free shuttle bus service to bring shoppers to the mall.

With the exceptions of Westgate Mall and Hongqiao Shopping Centre, none of the ancillary malls have a department store. Depending on their locations, some of the ancillary malls are designed and promoted as "theme malls," targeting a specific segment of the population. Plaza 66 on Nanjing Road W. has one of the highest concentrations of European high fashion brand names in China, and is touted as "a luxuriously appointed, high-class shopping centre," with its tenants being exclusively international brands, targeted at high-salaried white-collar professionals. The entire mall has no signs of promotion or any sitting places for ordinary and window shoppers.

The only area where one can sit down to have a rest is a railed-off coffee shop in the centre of the lobby. One must spend 1,000 to 3,000 yuan in the centre in order to get one hour of free parking. The nearby CITIC Square and the newly-opened Brilliance-Shimao International Plaza on Nanjing Road E. have a similar theme (Ye, 2006). Raffles City, located only one block from Brilliance-Shimao International Plaza, represents a different theme by appealing to young shoppers. The largest space user of its 50,000 m^2 is a fitness club occupying the entire seventh floor. Fashion retailers and restaurants are also promoted to young consumers.

Consumer Survey Results

Shopping centers are designed for people. Shoppers' attitudes, or public opinions and perceptions, are therefore a crucial factor for a mall's success. The survey results measure the level of consumer acceptance of shopping centres and interpret shopping behaviours.

Socioeconomic and Demographic Profile of Shoppers

Not surprisingly, the majority (88%) of the shoppers are local residents, and only 12% are visitors and tourists from outside of Shanghai (see Table 6). Also as expected, most visitors and tourists (34 out of 43) are found in the central area shopping centres. In addition, there is a significant gender difference, with twice as many females as males visiting shopping centres. The proportion of female shoppers is even higher in suburban malls (71%). This suggests that shopping centres may lack stores, merchandise, or activities that appeal to male shoppers. Females are more likely than males to visit fashion stores, and the numerous fashion stores in shopping centres may explain the high proportion of female shoppers. Furthermore, most mall shoppers are younger adults between 19 and 44 years of age, accounting for 73% of the surveyed customers. This group is more receptive of new products and more interested in exploring new retail concepts compared to older age groups. The concentration of young shoppers is more pronounced in the central area than in the suburbs, with the group making up 76.5% of all shoppers at central area malls as compared to 67.1% at suburban malls.

The largest group by occupation is office employees (38%), who in China are mostly white-collar professionals with above-average incomes. Since most of them work in the central area districts, the proportion is found to be much higher in the central area malls (42%) than in suburban malls (33%). This is followed by retirees (13.6%) and students (13%). The high proportion of retirees does not seem to be consistent with the over 60 years of age cohort (7.9%), but this could be explained by the fact that a large number of female workers have been forced to retire in their mid-40s due to the restructuring of many state-owned factories in the recent decade. Students do not have regular income to spend, but they seem to be adopting the American teenagers' habit of "hanging out" at the mall, especially at the malls in the central area. The proportions of shoppers who report as factory workers, government employees and teachers are about equal (8% to 9%).

Table 6
Profile of Surveyed Shoppers

Attribute	Central area (n = 205)		Suburban area (n= 149)		Total (N = 354)	
	No.	%	No.	%	No.	%
Resident status						
Live in Shanghai	171	83.4	139	93.3	310	87.6
Visitors/tourists	34	16.6	9	6.0	43	12.1
Missing data	0	0.0	1	0.7	1	0.3
Gender						
Female	126	61.5	106	71.1	220	62.1
Male	75	36.5	38	25.5	105	29.7
Missing data	4	2.0	5	3.4	29	8.2
Age group						
<18	8	3.9	2	1.3	10	2.8
19-24	62	30.2	21	14.1	83	23.4
25-44	95	46.3	79	53.0	174	49.2
45-60	25	12.2	26	17.4	51	14.4
>60	11	5.4	17	11.4	28	7.9
Missing data	4	2.0	4	2.7	8	2.3
Occupation						
Factory worker	11	5.4	20	13.0	31	8.8
Company employee	86	42.0	49	32.9	135	38.1
Government employee	16	7.8	14	9.4	30	8.5
Teacher	15	7.3	13	8.7	28	7.9
Student	40	19.5	6	4.0	46	13.0
Retiree	16	7.8	32	21.5	48	13.6
Others	21	10.3	15	10.1	32	9.0
Missing data	0	0.0	0	0.0	4	1.1
Monthly income (in yuan)						
< 1,500	14	6.8	24	16.1	38	10.7
1,500- 3,000	53	25.9	59	39.6	112	31.6
3,000-5,000	75	36.6	35	23.5	110	31.1
5,000-8,000	31	15.1	13	8.7	44	12.4
>8,000	24	11.7	16	10.7	40	11.3
Missing data	8	3.9	2	1.3	10	2.8

The survey also reveals that shoppers of all income levels visit shopping centres. According to Shanghai Statistics Bureau (2005), the average annual wage in 2004 for all economic sectors is 24,400 yuan ($3,050), and the average number of wage earners per household is 1.5. This gives an estimated average family income of 3,050 yuan ($380) per month. Using this estimate as a reference, it is found that 42%

of the shoppers come from families with below-average family income, another 31% from middle-income families with 3,000 to 5,000 yuan ($375 to $625) per month, and 24% from high-income families with more than 5,000 yuan per month. Unfortunately, because the Chinese census does not have an income variable, the size of each income group in the population cannot be calculated and it cannot be determined which income group is under- or over-represented among the shopping centre goers.

Consumption Patterns and Shopping Behaviour

As to purpose, the majority of the respondents come to the shopping centre for merchandise shopping (41%), entertainment (19%), or both (34%), as is revealed in Table 7. In total, they account for 94% of all surveyed shoppers. Few came for dining and commercial services (e.g., banking, medical services, and beauty salon). Central area vs. suburb variations are also apparent: the proportion of shoppers who visit shopping centres for entertainment and leisure is higher in central area malls (23.4%) than in suburban malls (12.8%).

Of those who made retail transactions, half purchased food and groceries (see Table 7). Additionally, two-fifths purchased apparel, and one-third purchased daily use articles such as personal products and kitchen ware. Only a small proportion of them bought electronics and furniture. These consumption patterns suggest that hypermarkets/supermarkets may play an important anchor role in attracting shoppers to malls, especially the suburban malls. Fashion stores are also important attractions, particularly in the central area malls, but electronics and furniture stores do not seem to do well.

In terms of duration, 44% of the surveyed shoppers spent 1 to 2 hours in the centres (Table 7). This is also the amount of time that grocery shoppers normally spend in a supermarket. Another 30% spent 2 to 3 hours, and only 12% stayed for more than 3 hours, indicating that recreation and entertainment functions are relatively weak in the shopping centres, as revealed in Table 5. The proportion of shoppers who stayed more than 3 hours is higher in central area malls than in suburban shopping centres, but only by a small margin. Not surprisingly, public transit is the major mode of transportation. Half of all surveyed shoppers traveled by bus, subway, or LRT while another 14% traveled by free shuttle bus. Cycling and walking are also major means of transportation in Shanghai, and 19% of the shoppers use them to patronize a shopping centre. Only 7% drive their own vehicles to a shopping centre, a much smaller proportion compared to North American cities. The remaining 10% take a taxi. This clearly indicates that shopping centres in Shanghai heavily depend on public transit for access.

Because suburban areas are not as well serviced as the central area, more shoppers rely on shuttle bus service, or use a bicycle, or walk to get to a shopping centre. As a result, the trade areas of suburban shopping centres are relatively small and compact (see Table 8). Figures 4 and 5 show that almost all shoppers surveyed at Wenfeng Mall were from within 2.5 km of the mall while most at Grand Gateway Plaza are from within 10 km of the mall.

Table 7
Shopping Purpose and Shopping Behaviour

Attribute	Central area (n = 205)		Suburban area (n = 149)		Total (N = 354)	
	No.	%	No.	%	No.	%
Shopping purpose (single response)						
Shopping	70	34.1	75	50.3	145	41.0
Entertainment	48	23.4	19	12.8	67	18.9
Shopping and entertainment	77	37.6	42	28.2	119	33.6
Eating	8	3.9	6	4.0	14	4.0
Other commercial service	2	1.0	1	0.7	3	0.8
Missing data	0	0.0	6	4.0	6	1.7
Shopping goods (multipurpose)						
Food and other groceries	69	33.7	107	71.8	176	49.7
Apparel	104	50.7	40	26.8	144	40.7
Electronic	6	2.9	10	6.7	16	4.5
Book/Stationery	18	8.8	9	6.0	27	7.6
Daily use articles	42	20.5	87	58.4	129	36.4
Furniture	4	2.0	2	1.3	6	1.7
Others	29	14.1	15	10.1	44	12.4
Shopping duration						
Less than 1 hour	30	14.6	21	14.1	51	14.4
1-2 hours	90	43.9	66	44.3	156	44.1
2-3 hours	57	27.8	46	30.9	103	29.1
3-4 hours	18	8.8	9	6.0	27	7.6
More than 4 hours	10	4.9	7	4.7	17	4.8
Mode of transportation						
Public transit (bus/subway/LRT)	140	68.3	37	24.8	177	50.0
Taxi	25	12.2	11	7.4	36	10.2
Bicycle/walking	16	7.8	50	33.6	66	18.6
Free shuttle bus	13	6.3	35	23.5	48	13.6
Driving	11	5.4	13	8.7	24	6.8
Missing data	0	0.0	3	2.0	3	0.8
Frequency						
Once a week	107	52.2	102	68.5	209	59.0
Twice a month	64	31.2	28	18.8	92	26.0
Once a month	29	14.1	10	6.7	39	11.0
less than 5 times a year	5	2.4	7	4.7	12	3.4
Missing data	0	0.0	2	1.4	2	0.6

Table 7 (*continued*)

Attribute	Central area ($n = 205$)		Suburban area ($n = 149$)		Total ($N = 354$)	
	No.	%	No.	%	No.	%
Day of visits						
Weekdays	59	28.8	77	51.7	136	38.4
Weekend	139	67.8	65	43.6	204	57.6
Missing data	7	3.4	7	4.7	14	4.0
Accompaniment						
With partner only	97	47.3	26	17.4	123	34.7
With children only	16	7.8	14	9.4	30	8.5
With partner and children	12	5.9	7	4.7	19	5.4
Alone	80	39.0	102	68.5	182	51.4

By North American standards, all of the seven malls where surveys took place would fall into the category of super-regional shopping centres with much larger trade area as shown earlier in Table 2. Even though residential densities are much higher in Shanghai than in North American cities, the number of residents living within the observed trade areas may still not be large enough to support the super-regional centres.

Despite the lack of private automobiles, nearly 60% of the surveyed shoppers in Shanghai visit a shopping centre on a weekly basis. This frequency rivals those of shoppers in North American cities. Another 26% visit a shopping centre once every two weeks, and about 15% visit a centre only once a month or less. Higher frequency is observed in suburban malls, with 69% visiting a mall once a week, probably because suburban residents make more grocery shopping trips.

Table 8

Average Travel Distance to Surveyed Shopping Centres

Shopping centre	Size (m^2)	Zone	Average travel distance (km)	No of respondents*
New World City	120,000	Central	9.85	37
Grand Gateway Plaza	140,000	Central	7.38	54
Westgate Mall	70,000	Central	4.29	29
Super Brand Mall	240,000	Suburban	5.61	36
Brilliance South Mall	100,000	Suburban	2.59	52
Brilliance West Mall	110,000	Suburban	2.19	50
Wenfeng Mall	84,000	Suburban	1.25	41

* Who provided useful information on their residential locations.

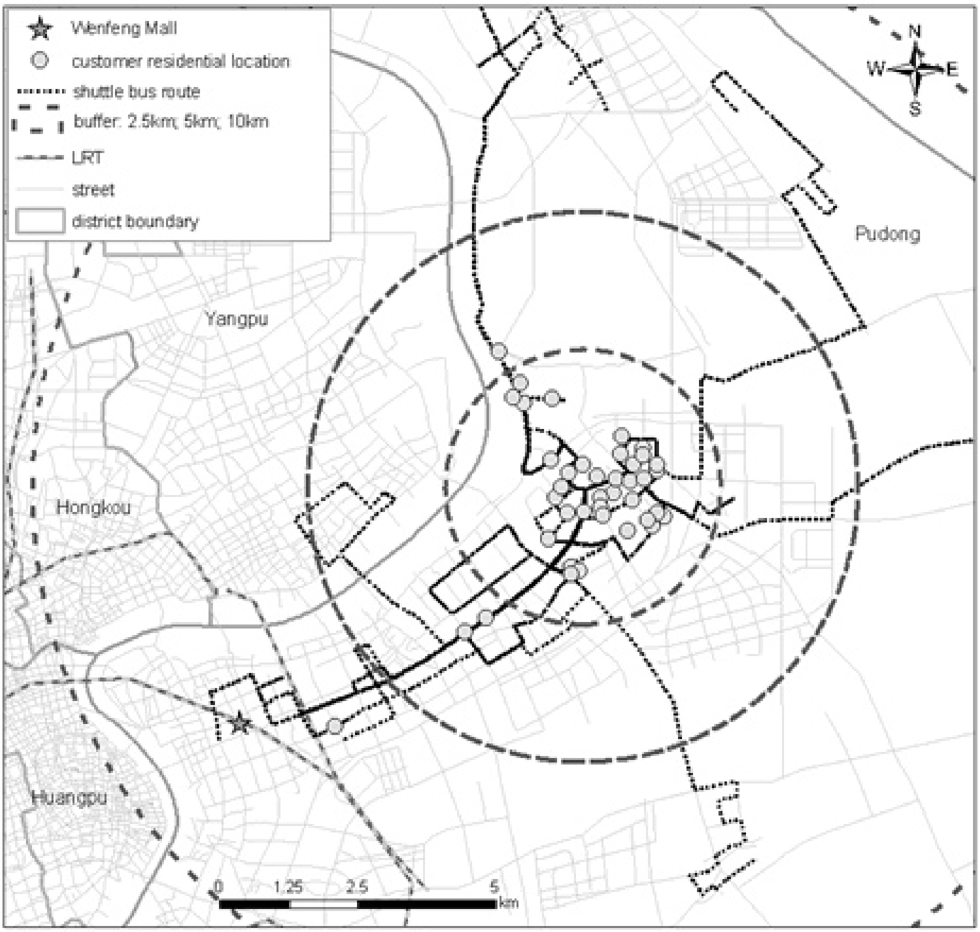

Figure 4. Residential location of shoppers surveyed at Wenfeng Mall.

When asked if they also go to other shopping centres in the city regularly, nearly 70% of the surveyed shoppers said “yes.” This shows that the shopping centres have become a popular shopping destination for many Shanghai residents. While 58% of the shoppers said they usually visit shopping centres on weekend, nearly 40% said they usually do so on weekdays. However, those surveyed in the central area malls are more likely to visit a shopping centre on weekend, whereas those surveyed in suburban malls are more likely to visit a mall on weekdays. It is not clear why such a difference exists.

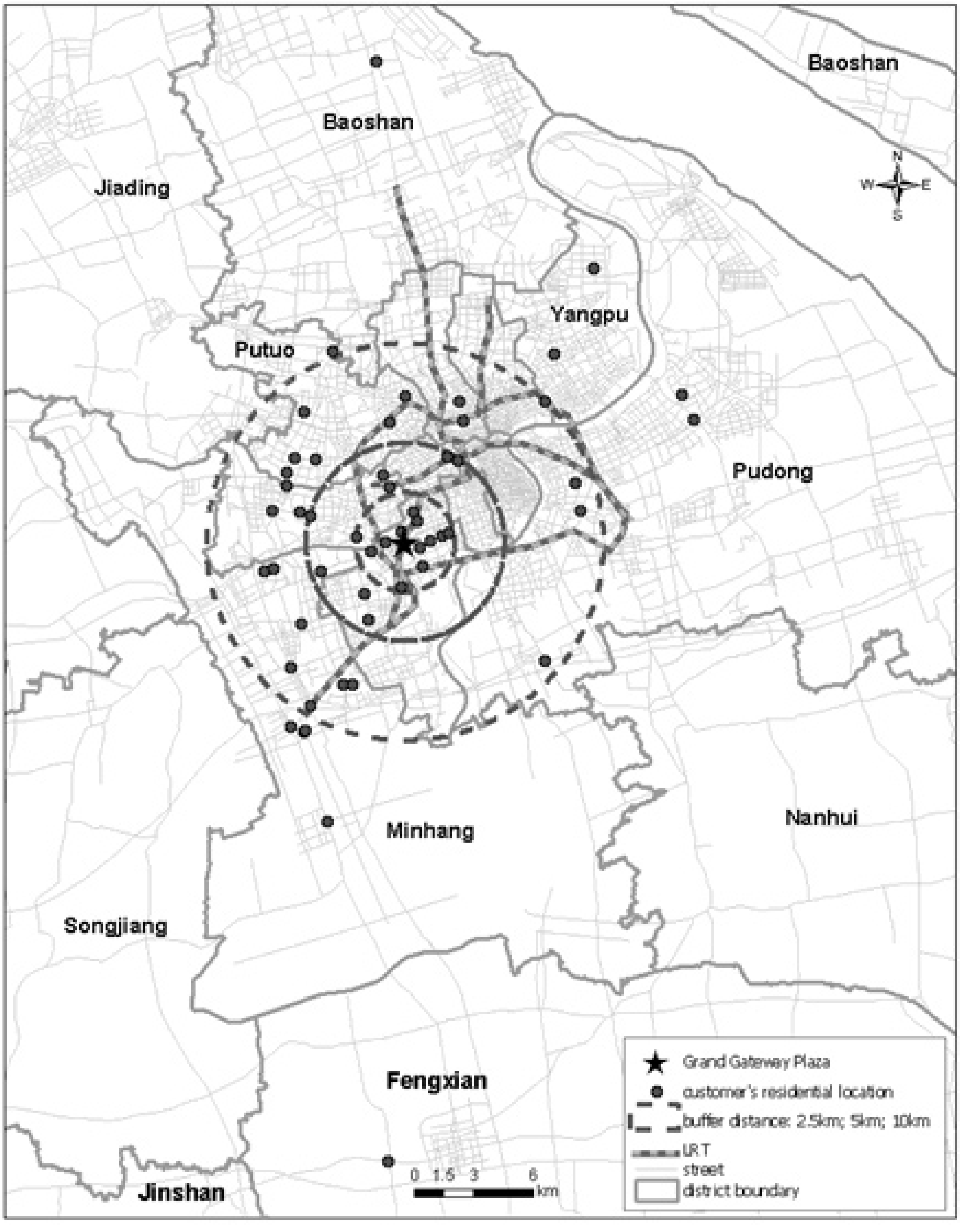

Figure 5. Residential location of shoppers surveyed at Grand Gateway Plaza.

Consumer Satisfaction and Preference

Questions 6 and 7 in the questionnaire are designed to ask about customer satisfaction and dissatisfaction, respectively, with some of the choices being similar to cross-check answers (see Table 9). As Table 9 reveals, customers are attracted to shopping centres mainly because of the variety of stores or choices of consumer goods that the centres offer. This is cited by 65% of the 354 surveyed shoppers. Other attractive features include an air-conditioned shopping environment and the availability of recreation and entertainment facilities, though such facilities are found to be inadequate in most malls. However, it appears that the internal layout of the centres is not very conducive to shopping traffic, as only 24% of the surveyed shoppers said it is easy to find stores that they wanted to visit. This is probably due to the multilevel configuration of the centres and their reliance on the use of elevators and escalators. Yet, it should be pointed out that only 13% of the surveyed shoppers explicitly complained about the inconvenience of visiting stores on different floors.

The most cited dissatisfaction is lack of resting places, with 44% of the surveyed customers sharing this feeling. Another complaint is high prices, with 23% believing that merchandise prices are higher than at other shopping destinations The next significant dissatisfaction is the distance of the centre from home, cited by 14% of respondents (see Table 9). This probably reflects the inconvenience of travel by public transit.

When asked to compare shopping centres with hypermarkets and traditional retail strips, shoppers indicated they prefer shopping centres to hypermarkets for apparel, electronics and books/stationery (see Table 10). However, they prefer hypermarket to shopping centres for food and daily use articles by large margins of 68% vs. 28% for food, and 63% vs. 29% for daily use articles. Both shopping centres and hypermarkets are equally preferred for home décor and beddings, at 40.1% and 40.7%, respectively. Retail strips are preferred to hypermarkets only for apparel, which is understandable given that many independent fashion stores are located on retail strips, which are close to residential areas and where prices are lower.

Challenges and Opportunities of Shopping Centre Development

Shopping centre developers and investors, both domestic and overseas, face a variety of challenges in Shanghai. First and foremost, Shanghai has not instituted an effective planning process and approval mechanism, and like most other Chinese cities, the planning process and the approval mechanism in Shanghai are inconsistent and are not as transparent as they should be. Currently, the municipal government encourages construction of shopping centres with little due restriction and interference with the developers. Yet, it is not known that Shanghai has a detailed land use bylaw, as most North American cities do, to guide the developments. A two-tiered approval mechanism exists, where the district governments are permitted to approve projects with costs up to 30 million yuan ($3.75 million), but larger projects must be approved by the municipal government. In addition, certain areas in the city are designated as "key development zones," which are controlled by the municipal government.

Table 9
Consumer Satisfaction and Dissatisfaction

Attribute	Central area (n = 205)		Suburban area (n = 149)		Total (N = 354)	
	No.	%	No.	%	No.	%
Satisfied with (multiresponses)						
Variety of stores	140	68.3	89	59.7	229	64.7
Easy to find different store	62	30.2	22	14.8	84	23.7
Air-conditioned environment	125	61.0	71	47.7	196	55.4
Availability of entertainment facility	78	38.0	51	34.2	129	36.4
Good prices	22	10.7	33	22.1	55	15.5
Availability of children's play facility	14	6.8	21	14.1	35	9.9
Dissatisfied with (multiresponses)						
Lack of store variety	13	6.3	18	12.1	31	8.8
Not easy to visit stores on different floors	17	8.3	28	18.8	45	12.7
The centre is crowded	19	9.3	15	10.1	34	9.6
Lack of recreation/entertainment facilities	27	13.2	14	9.4	41	11.6
High prices	57	27.8	24	16.1	81	22.9
Centre is far from home	35	17.1	14	9.4	49	13.8
Lack of rest places	112	54.6	43	28.9	155	43.8
Lack of children's play areas	15	7.3	5	3.4	20	5.6

Table 10
*Destination Preference for Different Types of Consumer Goods**

Consumer good	Shopping centre	Hypermarket	Retail strips	No answer	Total
Apparel	52.2	15.3	28.0	4.8	100.0
Books/stationeries	36.4	21.8	19.2	22.6	100.0
Daily use articles	28.5	63	4.0	4.5	100.0
Electronic	44.1	36.4	8.5	11.1	100.0
Food stuff	28.2	68.1	2.0	1.7	100.0
Home decor/bedding	40.1	40.7	7.1	12.1	100.0
Others	15.5	19.2	11.6	53.7	100.0

* Values are shown as percentages.

For instance, the government of Hongkou District planned to develop a modern shopping centre on the site of the defunct No. 7 Department Store on Sichuan Road N, a municipal-level commercial node, but the plan was rejected by the mayor.[9] On the other hand, the municipal government has approved large projects that are not necessarily desired by the district government or are incompatible with district plans.[10] To rationalize the spatial distribution of large retail facilities, in November 2001 Shanghai's government announced the introduction of public hearings into its approval process. Strangely, only a small number of participants are invited, apparently to avoid "out-of-control" public protest. Furthermore, public hearings are applied to developments of hypermarkets only, but have yet to be applied to shopping centre construction. As such, without an effective planning process and transparent approval mechanism, it is imperative that shopping centre developers know how to practice good "public relations" with the municipal government.

Lack of effective planning has inevitably led to irrational development patterns. Four large shopping centres were allowed to be constructed within a one-kilometre stretch of Nanjing Road W. which are Westgate Mall (42,000 m^2), Plaza 66 (52,000 m^2), CITIC Square (34,500 m^2), and Join Buy City Plaza (91,000 m^2). The first three are within 50 meters of one another. Similarly, three shopping centres already exist at the intersection of Nanjing Road E. and Tibet Road: Brilliance-Shimao International Plaza (58,000 m^2), New World City (120,000 m^2), and Raffles City (85,000 m^2). Yet, a fourth centre with eight storeys and 42,000 m^2 is currently under construction by Brilliance Group (Brilliance Group breaks ground, 2005). This is happening at a time when New World City is struggling to fill its recently completed 13-storey addition. Even if all the four shopping centres eventually become successful, they will draw shoppers from the pedestrian streets with devastating effects on the street-level retailers outside the malls.

Another challenge that shopping centre developers, especially domestic developers, face is a lack of expertise and experience in the areas of feasibility studies, tenant recruitment, and day-to-day operation/management. Without adequate location analysis or market surveys prior to construction, developers often rush to build and open a centre before tenants are properly recruited and secured. In North American cities, regional and super-regional shopping centres were often built in phases, whereas in Shanghai, even the largest malls were completed in one phase, which has contributed to high vacancy rates. At the time of data collection, ten of the 37 existing shopping centres have vacancy rates at 30% or higher (see Table 1). According to a comprehensive study by the Shanghai Commission of Economic Development (2005), many shopping centres have not achieved the minimum required sales, estimated at 8,000 yuan ($1,000)/m^2 per year.

An example of a poorly planned development is Millennium Plaza, which is an open-air mall with 54,000 m^2 of retail space, developed by two domestic real estate companies without known experience in shopping centre development. Built as a condominium mall, all units are for sale to individual investors. Sadly, since its

[9] Personal interviews with officials of Shanghai Shopping Center Association.
[10] Personal interviews with officials of Xuhui District government.

completion in January 2003, about two thirds of the units are still vacant, with no sign of occupation. Although located near an elevated LRT station, Millennium Plaza is also adjacent to a much larger enclosed mall, which with an Auchan hypermarket, has much greater drawing power.

Asia Pacific Plaza is another example of failure. Built underground and integrated with the subway station at Shanghai Science and Technology Museum and Century Park in Pudong New District, it was intended to be a shopping paradise for tourists and visitors. The underground mall consists of 450 small units, ranging from 10 to 20 m^2 in size. Since its completion in 2002, about 80% of the units are still empty. Its developer, also with no experience in shopping centre development and management, is desperately looking for investors, large and small, to buy it out (Gong, 2004).

Even the largest shopping centres have difficulty filling their retail spaces. CEPA Mall contains more than 180 store units, but only 70 were occupied by retailers on the day of "experimental opening" in January 2005 (The opening of CEPA Mall, 2005). When Summit Mall opened in December 2005, more than one hundred units on the upper floors had no tenants (Jiang, 2005). Even after four years in operation, Super Brand Mall still suffers from a high vacancy rate. Only eight stores are observed with a business presence on the top three floors, and the rest of these floors are not yet divided or partitioned, because the mall management does not know who the tenants will be. This creates a very negative image for the 240,000 m^2 super-regional mall located in the heart of Pudong New District.

Part of these problems may be related to the lack of retail chains in China. In North America, large shopping centres tend to be populated by brand-name chain stores. The chain provides a way of introducing scale economies while avoiding the restrictions of market size. In addition, chains are able to carry an unproductive store until the market grows (Jones & Simmons, 1993). In China, there are not many established domestic chains to take tenancy in shopping centres. Of the largest 100 chains in the country, only 52 have more than 100 store locations ("Statistics of the Largest 100 Retail Chains in China," 2005). While all large malls emphasize recruiting international brands, many of the international chains are not familiar with, nor are they certain about, the Chinese retail environment, and therefore are wary of entering into a multiyear leasing contract. In order to attract international retailers, some malls offer zero base rent and charge only percentage rent geared towards sales. Both Brilliance-Shimao International Plaza and Summit Mall are courting international retailers with such offers.

China still lacks REITs. Most domestic developers rely on bank loans and do not have the necessary capital to hold the shopping centres for them to mature. Furthermore, they lack the management expertise necessary to make their operations profitable. In 2005, the Ministry of Commerce and People's Bank of China jointly conducted a nationwide survey on the current state of commercial real estate development. The survey reveals a worrying amount of vacancy, with a total of 28.78 million m^2 of floor space in the first six month of 2005. This represents a 21% increase from the same period of the previous year, and is 18% higher than the residential real estate stock (Hu, 2005). Consequently, the central government ordered state-controlled banks to tighten their lending policies towards large shopping centre projects. In April 2006, the central bank, the People's Bank of China, raised its one-year lending rate to further dampen the overheating economy (Bradsher, 2006; Berman, 2006). This makes it more expensive for most domestic developers, who rely on bank loans, to continue holding their property. Many current mall owners are therefore looking for investors or buyers. Shopping malls usually need a major renovation every 10 to 15 years, and given that some of the shopping centres in Shanghai are 6 to 7 years old, pressure on owners to sell will mount.

Amid the challenges exist opportunities. The government of Shanghai recognizes that the development of shopping centres contributes to the city's economy in at least three ways: (a) creating employment, (b) generating property tax revenue, and (c) stimulating residential real estate development in the surrounding areas. Accordingly, the municipal government made it clear in its 10th Five-Year Plan (2001 to 2005) for Commercial Activity Development in Shanghai that all commercial nodes, district- as well as municipal-level, are to be anchored by one or more shopping centres and supported by rapid transit services (Shanghai Commission of Commerce, 2000). This requirement was even built in the city's codes for retail format classification and commercial nodes designation (Shanghai Bureau of Quality Control, 2001a, 2001b). Currently, Wujiaochang (i.e. Star Square) in Yangpu District is being upgraded from a district- to a municipal-level node, with two shopping centers being constructed as new anchors: the Hualian Center (110,000 m^2) and the Wanda Plaza (260,000 m^2). With the 11th Five-Year Plan (2006-2010) for Commercial Activity Development in Shanghai as the guideline, all district governments are required to develop their own action plans (Shanghai Commission of Commerce, 2005). Almost all suburban district action plans include creation of a Suburban Business District (SBD) to replace the old-fashioned main street, and the proposed SBDs all include planned shopping centres (Wu, 2006). Figure 6 shows both the shopping centres currently under construction and those proposed centres that can be identified by name and approximate location.

Shanghai is China's largest urban consumer market and its residents will have increasing purchasing power as the economy continues to grow. Despite facing fierce competition from hypermarkets and other big-box stores, shopping centres seem to be gaining popularity among Shanghai citizens. Our survey reveals that shoppers from all walks of life, and from both low- and high-income families, visit shopping centres fairly regularly. As the built-up area expands further into the suburbs, the city of Shanghai plans to extend the LRT network to include twelve lines, with seven stations serving as three-line interchanges, and another 29 serving as two-line interchanges. This will not only increases consumer mobility, but also open up new areas for construction of commercial spaces. Developers who are willing to be first movers could be future winners. Potential locations include new suburban residential subdivisions, future LRT stations, and the emerging SBDs. This, of course, requires knowledge of government intentions beyond the existing municipal plan. Particular attention should be paid to suburban areas adjacent to existing and future LRT stations. Well-positioned shopping centres can intercept suburban shoppers who otherwise would ride the rapid transit to the central area malls.

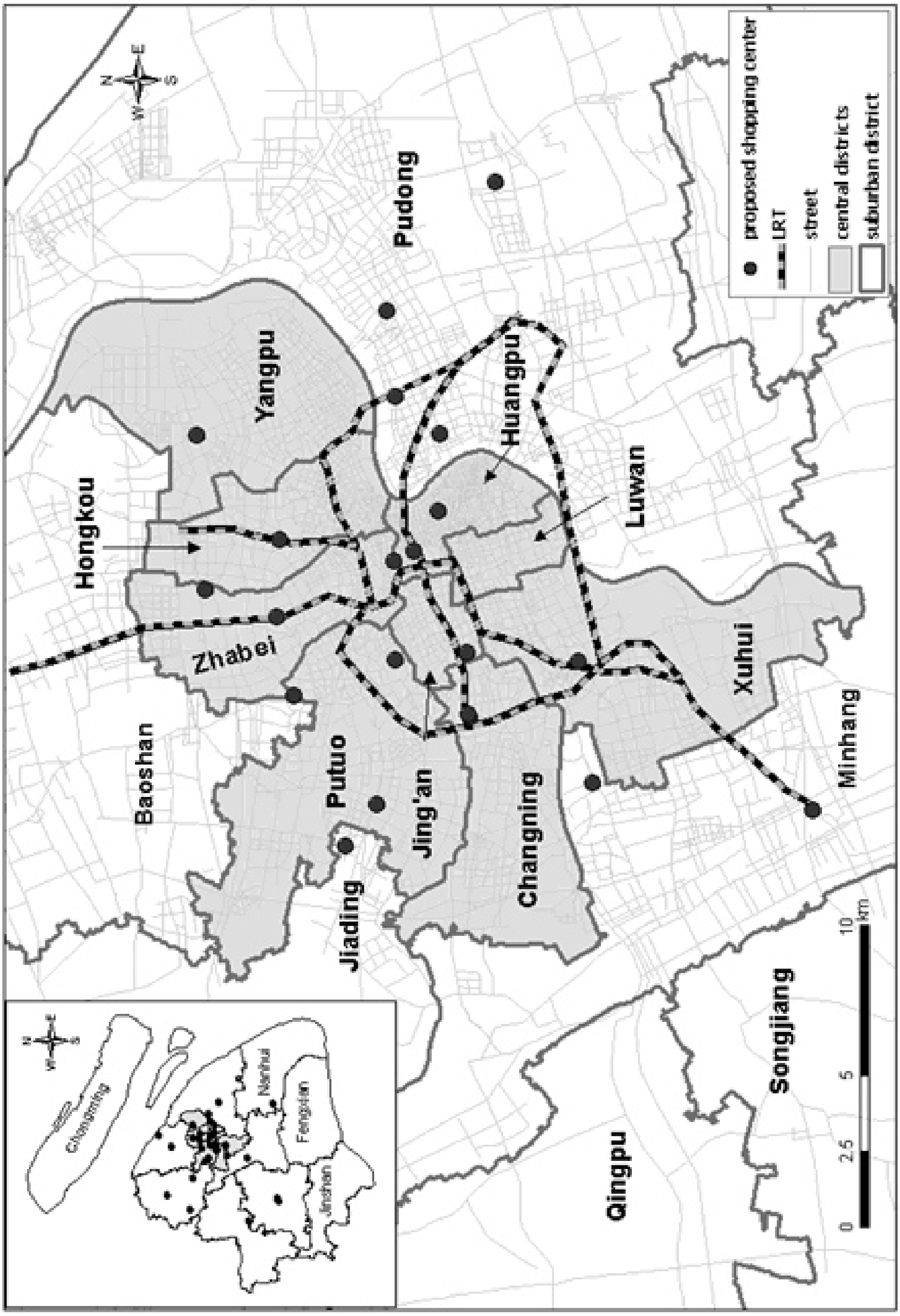

Figure 6. Proposed shopping centres in Shanghai, 2005.

For international REITs, it should be much easier to enter the market through acquisition of finished properties or approved projects, rather than obtaining "raw" land for new construction. This will save them from the trouble of going through land use right negotiations and the public hearing process, which will inevitably be applied to shopping centre developments in the near future. However, they may not want to buy condominium malls, because it is too difficult to ne-gotiate with too many individual owners. In October 2005, a Canadian-China Real Estate Conference was held in Toronto. The purpose of the conference was to convince Canadian institutional funds, particularly the large pension funds that own many shopping centres in Canada, to invest in China's commercial real estate. One of the two conference co-chairs is a senior executive vice president of Chai Tai Group, the developer and owner of Shanghai's Super Brand Mall (Canada-China Real Estate Conference Program, 2005). It is reported that a French REIT showed interest to acquire Brilliance West Mall, and a Singaporean REIT inquired to purchase Brilliance South Mall. While Brilliance Group insists on retaining majority shares ("Foreign Capital Begins to be Injected," 2004), other developers (including some of the overseas Chinese) are more receptive to international investors. In June 2005, Morgan Stanley purchased the loss-incurring Shanghai Square on Huaihai Road for $100 million ("International REITS Purchase 30 Shopping Centres," 2005). Further, it has recently completed negotiations with a local developer to purchase a suburban shopping centre, Air Modern Mall, in Pudong New District for $25 million ("Morgan Stanley is in Negotiation," 2006). In 2005, the Chinese partner of Join Buy City Plaza placed its 50% holding up for sale (Shanghai No. 9 Department Store Group, 2005).

Concluding Remarks

Shopping centres continue to be constructed in Chinese cities, and many municipal governments encourage the development of large shopping centres to raise their city's profile. The county's largest indoor shopping mall, Golden Resources Mall, opened for business in Beijing in 2004. The second largest, Huanan Mall, was completed in 2005 in Dongguan City of Guang-dong Province. Four large shopping malls in the city of Shenzhen, covering over 400,000 m^2, are slated to open in 2006 (Wu, 2005). Despite strong competition from hypermarkets and other big-box retailers, shopping centres seem to be gaining popularity among Chinese consumers, as this Shanghai case study suggests. While the state banks have tightened lending to large shopping centre projects, both state and local governments in fact welcome overseas investments from international investors, particularly professional REITs, who have experience in attracting and packaging brand-name international retail chains.

Lack of capital and experience in mall development and management on the part of developers has lead to high vacancy rate in many large shopping centres, including Beijing's Golden Resources Mall. In the current fiscal environment, capital-hungry Chinese developers are looking to sell buildings to foreign funds and property companies. In the next five to ten years, some shopping centers in Shanghai and other cities will be due for periodic renovations, necessary for preserving the value of the asset, but the mall owners may not have the required capital to carry out such renovations.

Although the Western REITs have lost some first-mover advantages to Southeast Asian investors and developers, there are still opportunities for them to enter the Chinese commercial real estate market, through the acquisition of existing properties. Macquarie Bank Ltd of Australia has reportedly acquired partial ownership of nine shopping centres developed by Wanda Group in several Chinese cities (Liu, 2005; “Wanda Group Receives 5 Billion Yuan of Capital Injection,” 2005). The American Simon Property Group, Inc. and Morgan Stanley have reached an agreement with Shenzhen International Trust & Investment Co, Ltd. to jointly develop 12 shopping centres in the Yangtze River Delta Region (International REITs purchase 30 shopping centres in China, 2005). In China, where land is owned exclusively by the state, it is extremely important for the international REITs to negotiate and secure long-term land use rights, to minimize the risks associated with high sunk costs. Some domestic developers will insist on retaining joint ownership. Considering that the political environment in China is still precarious, it may not be a bad investment option for the resource-rich international REITs to have Chinese partners, as many international retailers do in China, such as Wal-Mart, Carrefour, and A.G. Metro.

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