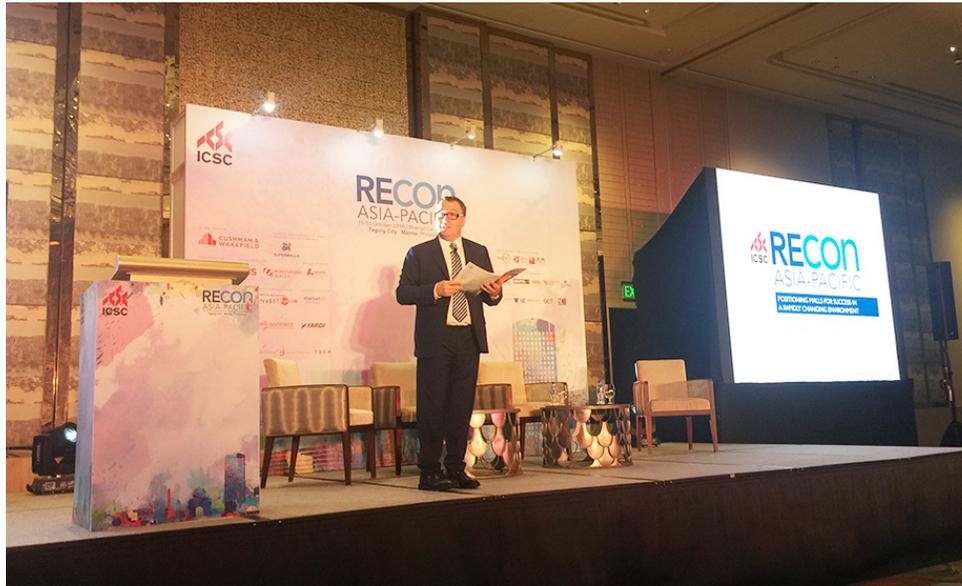


10 TAKEAWAYS FROM ICSC RECON ASIA-PACIFIC 2016



- 1) Transit-oriented development, the development of shopping areas near public transit, represents the future of urban shopping centers. This type of real estate design is particularly popular in Asia, where over 50% of the population is expected to reside in urban areas by 2018.
- 2) Shopping centers aim to create a sense of community by offering experiences such as concerts, in-store classes and dining. Retail property developers need to consider local residents' desires for events and entertainment when designing shopping malls.
- 3) Food and beverage is a key traffic driver for shopping malls. The majority of RECon Asia-Pacific 2016 attendees expect to expand the food and beverage areas in their properties over the next five years. Dining in malls is gaining popularity in Asia.

The Fung Global Retail & Technology team attended the International Council of Shopping Centers (ICSC) RECon Asia-Pacific 2016 conference, which was held in Manila, Philippines, from October 11–13. The event is the premier annual retail real estate conference in the Asia-Pacific region, and approximately 300 global retail real estate professionals were in attendance.

10 Key Takeaways from the Event

1) Transit-Oriented Development Represents the Future of Urban Shopping Centers

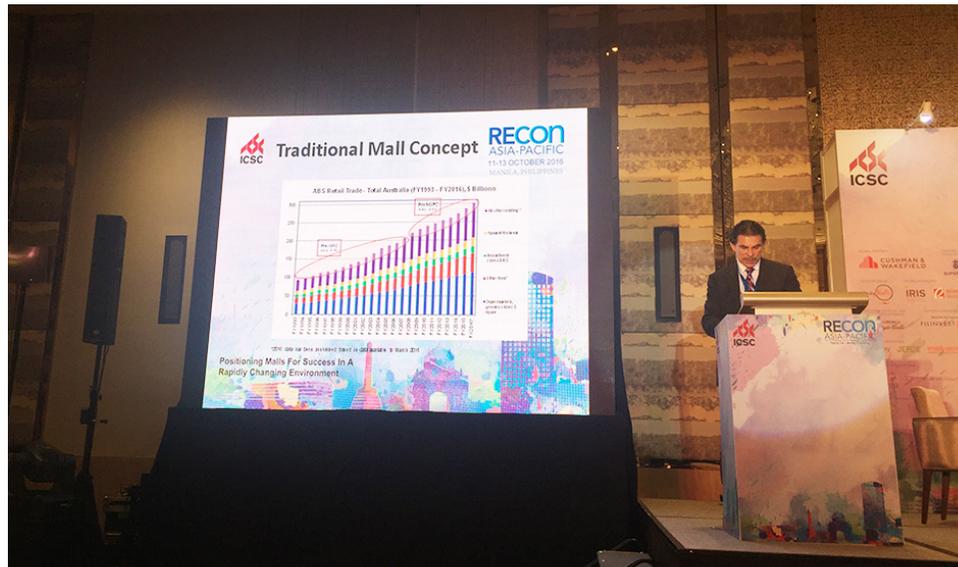
Against the backdrop of rapid global urbanization, transit-oriented retail real estate design represents the future of urban shopping centers, according to Liz Holland, ICSC Chairman and CEO of Chicago-based retail real estate investment firm Abbell Associates. Transit-oriented development refers to creating a mix of commercial retail areas near public transportation, which is a natural driver of traffic to retail stores in cities. Busy urban residents enjoy the convenience of shopping on the way to work and on the way home.

Transit-oriented design is particularly popular in Asia, where over 50% of the population is expected to reside in urban areas by 2018. Japan, Singapore, China and Hong Kong are leaders in developing transit-oriented shopping centers. Holland shared the success story of the Union Square development in Kowloon, Hong Kong, where a multilevel mall was built around a subway station on an airport route. The mall attracts a large number of tourists who shop there on their way to the airport.

2) Shopping Malls Should Create a Sense of Community Through Experiential Offerings

Keynote speaker Will Higham, founder of UK-based consultancy The Next Big Thing, characterized the future of shopping malls as “communal.” Malls are a place for locals to meet and socialize through experiences such as concerts, in-store classes and dining, he said. Bill Giouroukos, Managing Director of 3G Holdings, an Australian retail property consultancy, calls shopping centers the “the new town hall,” where locals meet for events and gatherings.

Higham cited the Avalon mall in Alpharetta, Georgia, as an example of a mall where the design has been tailored to the local community. The developer conducted extensive surveys of local residents’ interest in entertainment and events, and those needs were factored into the design of the mall. Paul Yee, Senior Director of Real Estate and Store Construction at Nike Greater China, shared Nike’s experience of establishing a runners’ community in Shanghai and creating in-store events around the Shanghai International Marathon schedule.



Source: Fung Global Retail & Technology

3) Shopping Centers Reinvented: Retailtainment /s the Future

Kim McInnes, CEO of Shopping Malls for UAE-based mall operator Majid Al Futtaim, highlighted the state-of-the-art entertainment facilities at the Mall of the Emirates in Dubai as an example of how entertainment offerings can generate traffic and revenue for malls. McInnes pointed out that entertainment is a crucial component of shopping-center offerings. The Mall of the Emirates features a 22,500-square-meter ski resort called Ski Dubai and an 8,150-square-meter theme park called the Magic Planet.

Thomas McLain, of US-based law firm Hogan Lovells, said that similar types of entertainment facilities are being developed within shopping malls in the US. McLain commented that it is important to offer family-oriented and education-based entertainment at shopping centers. The proportion of entertainment areas is about 10% at some US malls, and that figure is likely to increase to 25% over the next few years, McLain said.

4) Food and Beverage Offerings Will Be the Key Traffic Drivers for Shopping Malls; Localized Dining at Malls Is Gaining Popularity in Asia

Several speakers in different sessions pointed out that food and beverage is a key traffic driver for shopping malls. Food and beverage offerings attract people to congregate at shopping malls, commented Margarita Forés, a well-known Philippine chef and restaurateur. Based on a show of hands, a majority of conference attendees expect to expand food and beverage areas in their properties over the next five years.

In Asia, new local food concepts are gaining popularity at shopping malls. According to Forés, people in Asia are looking to taste unique food at their local malls because heavy city traffic prevents frequent long-distance travel. She said she has also experimented with unique food concepts—such as 1950s local Philippine dishes and Italian cafés—at her restaurants located within shopping malls in Manila, and that these have enjoyed great success.



Source: Fung Global Retail & Technology

5) Brick-and-Mortar Stores Address Consumers' Instant Gratification Needs

Consumers have been trained by online channels to shop wherever they want and whenever they want. Several speakers mentioned that, in order to compete with online channels, brick-and-mortar stores need to address this desire in ways that go beyond their traditional means of operation. Will Higham mentioned that some UK stores have created virtually shoppable windows that allow shoppers to browse and order products outside normal store operating hours. Paul Yee shared some of the measures Nike has taken to address consumers' need for immediacy. He said that if shoppers cannot find the right size in a store, the company can accurately direct them to the nearest store that has that size in stock, thanks to Nike's highly accurate view of inventory. In many cases, Nike offers free delivery to customers who cannot find a desired product in-store.

6) Millennials Influence a Wide Range of Demographic Groups and Set Trends for Shopping-Center Developments

Millennials were one of the key focuses at the RECon Asia-Pacific event. Keynote speaker Rowena Tomeldan, President of Ayala Land Malls, a Philippines-based mall operator, outlined eight characteristics of the generation. Among other things, she noted that they are digitally savvy, experience driven, adventurous and passionate about their causes and that they have a strong desire to be unique. Tomeldan also noted that the generation is blurring the definition of work locations. Millennials influence people in older generations as well, she said, as the Gen X and baby boomer generations look to the group for lifestyle inspiration.

Iz-Lynn Chan, CEO of Singapore-based BHG Retail Trust Management, highlighted a few efforts that shopping centers in Asia are making to target millennials and those inspired by them. Some shopping malls in Singapore, for example, include bookstores and coffee shops that are open late to accommodate millennials’ desire to work outside the office. Many shopping malls have adjusted their hours of operation to stay open until midnight and, to cater to experience-driven millennials, some malls have developed themed restaurants with a wide selection of cuisines.



Source: Fung Global Retail & Technology

7) Gen Zers Are the New Millennials

Another demographic group that many speakers highlighted was the generation that follows the millennials, Gen Z, whose members were born in 2001 and thereafter. In many countries, this age group is the second-largest demographic group after the millennials. In certain Asian countries (such as the Philippines) where the population is young, there are more Gen Zers than there are millennials. While Gen Z does not yet possess significant spending power, its members will be entering adulthood over the next five to 10 years, and these consumers are “the millennials of the future,” according to some panelists.

As a group of true digital natives, Gen Zers exhibit traits that are similar to what defined millennials when they were younger. However, Gen Z adopts new technology even faster. Some speakers think that Gen Z will continue to exert influence on their Gen X parents and baby boomer grandparents. In countries such as the Philippines, where



multigenerational family groups often participate in weekend activities together, Gen Z will set spending trends for a larger set of age groups.

8) Green Spaces Improve Sales for Shopping Malls in Asia

There is a growing desire to include more green space in shopping centers. As part of the rapid urbanization in many Asian countries, the development of shopping malls is receiving greater consideration in urban planning. In many places, shopping centers are located in areas where large numbers of city residents convene.

Alex Yong, Vice President of Project Development at The Jerde Partnership, a Hong Kong-based architecture design firm, shared an example of a project in Osaka, Japan, in which green space comprises more than one-third of a mixed-use shopping area. The green space features more than 40,000 varieties of plants, and the shopping center features nine floors of retail space. During the two phases of development, between 2003 and 2007, the total sales generated at the property grew from \$140 million to \$290 million and rents increased from \$4.00 to \$12.00 per square meter. The increase in mall productivity was largely due to tourists who were attracted to the adjacent green garden, Yong said.

9) 3D-Printed Shopping Malls Could Become Reality in the Near Future

David McCarroll, Principal of Buchan Group in China, described 3D-printing technology as the future of shopping-center architecture. There are already successful cases of 3D-printed apartment buildings in Beijing and offices in Dubai, and McCarroll noted that “the technology is already there.” He said, “3D-printing technology can create dynamic buildings whose shapes can evolve over time due to special, moldable materials used in the printing process.”

According to McCarroll, 3D-printed shopping centers would typically require less material than traditional buildings, and some of the materials could be recycled. From an environmental perspective, 3D-printed buildings are also much more sustainable, he said.

10) Shopping Mall Saturation Is Global

Bill Giouroukos recounted the history of the US retail industry to emphasize the need for shopping malls to reinvent themselves. He said that owners and operators need to close unprofitable properties and reinvest in experiences at profitable locations. He called this process “demalling” in the face of oversaturation in the US.

A show of hands indicated that a majority of conference attendees expect Asia to also be at risk of shopping-center oversaturation during the next few years, given the speed of development they have seen.

Annie Garcia, President of SM Supermalls in the Philippines, shared similar concerns about oversaturation in the Philippines, especially in the cities. She added that diversifying shopping-center portfolios between urban and suburban areas in different provinces is one way to prevent such a problem.



FLASH REPORT

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