

LESSONS FOR CHINESE MEGA-MALL DEVELOPMENT

A CASE STUDY OF THE SOUTH CHINA MALL

by

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Department of Architecture

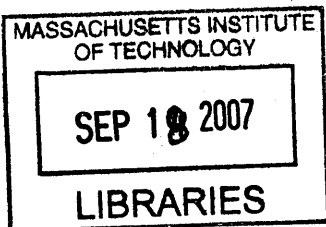
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Lessons for Chinese Mega-mall Development:

A Case Study of the South China Mall

by Lu Ai

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Abstract

China is embracing mega-mall development: Seven out of the ten largest shopping malls in the world will have been located in China by the year 2010.¹ All the completed mega-malls are now suffering from high vacancy rates and therefore experiencing enormous economic losses. To avoid the failure of future mega-mall projects, it is important to establish rigorous guidelines for design, leasing, financing, and management of Chinese mega-malls. However, research in this field has not yet been conducted. This paper will analyze five problematic issues of the South China Mall, the largest shopping mall in the world, and describe a dynamic process involving governments, developers, and banks behind the failure of the Mall². The paper will also provide strategic suggestions on the development and management of the Mall. Given its dimensions and aspirations, the South China Mall is a mirror of contemporary Chinese mega-mall development. It is hoped that lessons from the South China Mall can be applied to other Chinese mega-malls currently experiencing economic stagnancy.

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Introduction

Mega-malls are complexes that contain shopping, entertainment, and amusement-park amenities covering over several hundred thousand square meters. Although criticized as catalysts of urban sprawl and symbols of consumptionism, mega-malls in the United States have achieved financial success and become regional centers and engines of economic growth.

Mega-mall culture from the United States coincidentally appeals to the value of modern Chinese culture, which canonizes gigantic volumes as symbols of modernization and economic development. Therefore, the Chinese are embracing mega-malls. Of the ten largest shopping malls in the world, five are located in China and the number will increase to seven in 2010³. However, these mega-malls are now suffering from high vacancy rates and therefore experiencing enormous economic loss. For example, the South China Mall -- the largest mall in the world -- has over 1,500 stores in approximately 7.1 million square-feet (650,000 square meters), and is 80% empty.⁴

After thirty years of exploration, shopping mall development research in the United States has matured. The most complete shopping center development reference in US is the *Shopping Center Development Handbook* published by the Urban Land Institute. The handbook not only provides basics of shopping center development – including history, design, planning, tenant mix, leasing and management—but also highlights the latest trends.⁵ However, similar research in China has not yet been conducted. Chinese developers have interpreted western shopping center development and management rules in their own ways, some of which have been misunderstood or implemented regardless of the Chinese local situation. To avoid failure of future mega-mall projects, it is important to establish rigorous guidelines for design, leasing, financing, and management of Chinese mega-malls by referring to US experiences and the Chinese context.

This thesis will investigate the problems of recent mega-mall development mania in China. It will firstly analyze the reasons of the South China Mall's current failure: 1) a questionable location choice; 2)

overly optimistic market analysis; 2) unrealistic positioning of the mall as an “international style retail and entertainment complex;”⁶ 3) ill-advised leasing strategies and physical design, which fails to distinguish the South China Mall from other malls in the trade area; and 4) rapid expansion of the Mall disregarding financial constraints and current unfavorable market performance. The paper will further describe a dynamic process involving governments, developers, and banks behind the current failure of the Mall. Finally, the paper will propose that the South China Mall should adapt itself to the gradual evolution of the immigrant society in the city of Dongguan. The developer should reposition the mall in accordance with the local context; allocate more public activities such as schools, libraries and sports fields to the current empty space to attract customers; and budget more money on the residential development and infrastructure construction around the South China Mall to increase the number of local customers. Given its dimensions and aspirations, the South China Mall is a mirror of contemporary Chinese mega-mall development. It is hoped that lessons from the South China Mall can be applied to other Chinese mega-malls currently experiencing economic stagnancy.

Data and facts adopted in the analysis are gathered from the market analysis provided by SMR group⁷, Chinese Census Bureau and other related websites and newspapers. Developers of the South China Mall were also interviewed. In order to compare the development of the South China Mall with American experiences, the development and management experience of the Mall of America, the largest shopping mall in the United States, has been researched and then employed to compare with the South China Mall.

Notes

1. Tom Van Riper, "World's Largest Malls," *the Fobes Magazine*, (No.1, 2007), http://www.forbes.com/business/2007/01/09/malls-worlds-largest-biz-cx_tvr_0109malls.html, (access Feb,22nd, 2007)
2. The Mall is the abbreviation for the South China Mall in this paper.
3. Riper, "World's Largest Malls."
4. The numbers are gathered from my personal interview with Qiuyun Li, a property manager of the South China Mall, in Jan.2007.
5. Michael D.Beyyard and W.Paul O'Mara, *Shopping Center Development Handbook*, (Urban Land Institute, 1999).
6. Li, winter interview.
7. The SMR Group is a consulting company headquartered in the city of Guangzhou. It specializes in marketing research service for shopping malls. It did the feasibility study for the South China Mall in 2002.

Chapter 1: The Mallings of China

The International Council of Shopping Centers defines shopping malls as “centrally owned and managed cluster of architecturally unified retailing spaces designed to accommodate automobile access on their periphery while restricting traffic to pedestrians in their cores”.¹ Shopping malls entered China in the middle 1990s, and now are booming.² This chapter will first review Chinese shopping mall development history and current situation. It will further discuss recent booming of mega-malls -- the gigantic retail and entertainment complexes.

1.1 An overview of retail development in China

1.1.1 History of retail development

Before 1979, daily commodities in China were strictly controlled by governments. Commodities were allocated to households according to number, gender and age of family members. Equal distribution of commodities was a symbol of communist idealization of common wealth. However, since the Economic Reform in 1979, retail restrictions have been gradually released. Up till now, retail development has experienced five stages: vendors’ stands, specialty markets, shopping streets, state-owned department stores and shopping malls (figure 1-1).³

The first stage was characterized by spontaneous vendors’ stands in dense urban residential areas. Vendors served people apparel and other daily commodities. It was an adventurous experiment after many years of implementation of centrally controlled wealth allocation system and reshaped vibrant urban life. It lasted for more than 20 years since 1979 and has gradually been replaced by modern commercial spaces; the second stage, starting from mid-1980s, was represented by specialty markets. Cities delineated a special zone for a particular retail category and centrally managed it to ensure the quality of the retail environment. Almost simultaneously, shopping streets started to be constructed. They were considered as effective approach to raising city images and drawing tourists.⁴

In the early 1990s, state-owned department stores emerged and

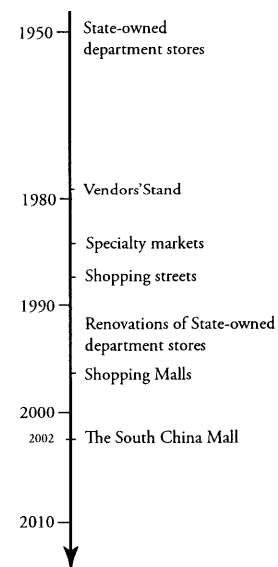


Figure 1-1:
The timeline of Chinese retail development

prevailed in urban areas in China. The single-function department stores were prototypes of Chinese shopping malls. State-owned retail companies controlled the ownership and operation of department stores. Commodities offered there were limited to Chinese brands and were therefore universal countrywide.⁵

Shopping malls, the fifth stage products, were introduced by Hong Kong developers in the middle 1990s.⁶ Earliest shopping malls were always located at urban centers, accommodating department stores, small-scale entertainment amenities, and restaurants. Representatives of such earliest shopping malls include Scitech Mall in Beijing, Shanghai Plaza, Time Square, and China Resources Plaza in Shanghai.⁷ Shopping mall development has been booming since 2001 with annual increase number of nearly 100. Up to 2003, China has 236 shopping malls: 35 in Shanghai, 27 in Guangzhou, 20 in Shenzhen, and more than 10 in Beijing, Chongqing and Wuhan respectively (figure 1-2).⁸ A typical phenomenon is a significant proportion of super-regional shopping malls and regional shopping malls in the shopping mall system -- 36% and 34% respectively⁹ -- which suggests the possible undersupply of neighborhood and community shopping malls. As retail competition becomes increasingly intense, developers start to experiment with retail and entertainment complexes to attract customers.

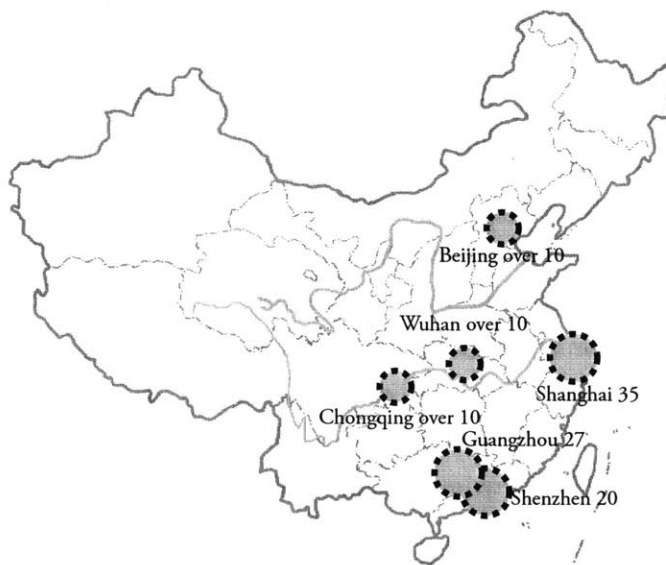


Figure 1-2:
The distribution of shopping malls in China
Source:
numbers in 1.1.1.

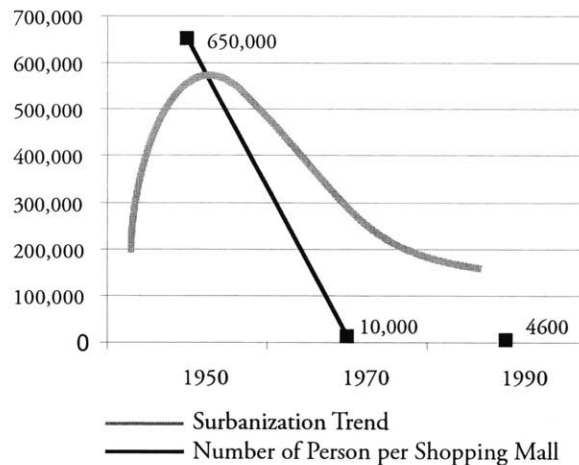


Figure 1-3:
Suburbanization and
shopping mall develop-
ment trend
Source: Numbers from
Todd O. Lieberman,
“Mallville: mixing uses in
the shopping center of the
future.”

1.1.2 Geographical distribution

Traditionally Chinese shopping malls are concentrated in the urban cores, which have maximum transit accessibility and the densest population. Recently a suburbanization trend is emerging in China induced by large investment in the national highway system, increasing private car ownership and exploded urban population. Since 1985, the government has given high priority to road development. It has launched an ambitious plan to construct a national highway network, a network of 85,000 km expressways over the next three decades, connecting all provincial capitals and cities with a population of over 200,000. Moreover, the amount of private cars increases by 15% to 20% annually.¹⁰ Researchers are interested in studying the impact of emerging suburbanization on shopping mall distribution. One great concern is whether suburban style shopping malls in the United States will be replicated in China in the near future.¹¹

Suburbanization has enormously transformed the shopping mall industry in the United States since the 1950s. Widespread automobiles, a complete national highway network and people's desire for better living environment spawned the suburban growth. Correspondingly, suburban shopping centers were extensively constructed and eventually caused the decline of old downtowns. However, in the suburbanization process, retail development significantly lagged behind the suburban population sprawl. In 1950, at the peak of suburbanization, every 650,000 suburban residents shared one shopping mall. Later, the number was rapidly reduced to

10,000 in 1970 and 4600 in 1990 (figure 1-3).¹²

However, suburbanization in China and in the United States has many differences in terms of historical settings, the role of governments, driving forces and consequences. As shown in appendix 1-1, suburbanization in China will not cause the decline of the downtown. It is rural migrants who will concentrate in the suburbs, and urban functions will still be dominated by urban centers. Therefore, there are little chances that suburban shopping malls in China will become the dominant form, and it will take a long time for suburban style shopping centers to thrive in China, considering the lagged behind phenomenon in suburban retail development in the United States mentioned above.

One typical phenomenon is shopping mall clusters in downtown centers. For example, four large shopping centers, Westgate Mall (42,000 m²), Plaza 66 (52,000 m²), CITIC Square (34,500 m²), and Join Buy City Plaza (91,000 m²), were constructed within a one-kilometer on Nanjing Road in Shanghai, with 50 meters distance between each other.¹³ Even if these shopping clusters thrive because of strong demand, they cause congestion in urban cores and incur parking shortages.

1.1.3 Financing

Shopping mall development in China still lack investment instruments. Developers mainly rely on bank loans and private capital. The issue of bank loans is not a rigorous and transparent process. It is easy for developers with government support or strong personal relationship with banks to obtain loans, while other developers are stranded by capital shortage. In the United States, there are various approaches to financing shopping malls, such as conventional mortgages, corporate bonds, participatory mortgages¹⁴, sales and leaseback¹⁵, real estate investment trust¹⁶, and ground rents¹⁷.

Lenders in the United States require strict paper work from developers and carefully examined the qualifications of projects: for example, some lenders require an over 1.2 debt service coverage ratio¹⁸ or “a guarantee of about 75% triple-A tenants¹⁹”. In contrast, Chinese loan lenders are generally looser in issuing loans to shopping mall development, because the Chinese banking system is overabundant in cash due to

historical reasons, and for banks shopping malls are relatively less risky guaranteed by large underlying properties.

1.1.4 Physical Form

Unlike typical North American one-floor large foot print shopping malls, in urban areas of high density, Chinese shopping malls are mostly multi-storey buildings, some of which are even “pencil malls” over 10-floor-height.

In the paper “Opportunities and challenges of shopping centre development in China: a case study of shanghai” published in *Journal of Shopping Research* in 2006, Shuguang Wang, Yongchang Zhang and Yuanfei Huang discuss how Chinese shopping mall style varies with developers. As the paper mentioned, besides domestic developers, current shopping mall developers are mainly from Hong Kong, Singapore, and Taiwan. Western developers have not yet been extensively involved. Hong Kong and Singapore developers favor vertical shopping malls as ancillaries of large-scale mix-use projects, especially office buildings. They believe that white collar professionals in urban upscale office buildings are main consumers of shopping malls, and mix-use developments can effectively save land-cost. Taiwanese developers focus on community shopping malls in suburbs, because their investment in shopping malls is more strictly controlled by the Chinese government for political reasons. It is more difficult for them to obtain lands and financing at favorite conditions. Domestic developers build mainly shopping malls in both urban centers and suburbs. They are more willing to experiment with new types of shopping malls: for example, most mega-malls were constructed by domestic developers, and they replicated trendy designs from all over the world.²⁰

1.1.5 Consumption Patterns

Chinese consumption patterns are gradually transformed by economic development. ACNielsen Company conducts annual consumer surveys in seven Chinese cities including Harbin, Beijing, Chengdu, Wuhan, Shanghai, Guangzhou and Shenzhen. 7,000 customers within the age range 15 to 65 are surveyed. Their latest survey implies traditional markets are losing customers to shopping malls and super markets. 80%

of daily commodities, the largest proportion of the consumption, are attributed to shopping malls and supermarkets, while 20% to traditional markets and neighborhood stores. The shopping frequency, which was once every day for daily goods, is largely reduced, especially among working professionals.²¹

With average GDP per capita less than US\$2,000, China takes 8% of the luxury market in the world, and the share is increasing.²² “Being rich is glorious”, a new concept promoted by Xiaoping Deng, encouraged Chinese people to transform from frugal savers to liberal spenders. Luxury commodities become the symbols of wealth. In 2004, the Chinese luxury market consisted of 400 super-rich households with a combined wealth of US\$75 billion, equivalent to 7 percent of China’s GDP; 320,000 Chinese households with financial assets over US\$1 million and 175 million households who can afford luxury brands. The total number is expected to be 250 million by 2010.²³ The lust for luxury stimulates enormous spending.

1.1.6 Shopping mall expertise

Since the real estate development industry in China has low entry barriers, most domestic developers in China are poorly educated and bold. The developer of the South China Mall declares himself as the bravest developer in China.²⁴ Domestic developers always accumulate their wealth by residential development or infrastructure construction, and are lack expertise in site selection, market analysis, tenant administration, and daily management of shopping malls. Chinese developers have interpreted western shopping center development and management rules in their own ways, some of which have been misunderstood or implemented regardless of the Chinese local situation. Moreover, they are universally ambitious in launching large-scale projects, and eagerly fight for the title “the world’s largest shopping mall”.

1.2 Mega-mall Mania

Mega-malls are complexes that contain shopping, entertainment, and amusement-park amenities covering over several hundred thousand square meters. Although criticized as the catalyst of urban sprawl and

symbols of consumptionism, mega-malls in the United States have achieved financial success and become regional centers and engines of economic growth.

Mega-mall culture from the United States appeals to the value of modern Chinese culture, which canonizes gigantic volumes as symbols of modernization and economic development. Therefore, the Chinese are embracing mega-malls. Of the ten largest shopping malls in the world, four are located in China and the number will increase to seven in 2010 (Appendix 1-2)²⁵. However, these mega-malls are now suffering from high vacancy rates and therefore experiencing enormous economic loss. For example, the South China Mall -- the largest mall in the world -- has over 1,500 stores in approximately 6.5 million square-feet (600,000 square meters) and is standing 80% empty²⁶; the Gold Resources Mall in Beijing, the second largest mall in the world, has daily visitors fewer than 10,000, less than 10% of prediction.

1.3 A brief comparison of the South China Mall and the Mall of America

In order to generate lessons for Chinese mega-mall development, American shopping center experiences are compared. The development of the Mall of America, the largest shopping mall in the United States, is carefully researched and then employed to compare with the South China Mall. A brief comparison of these two malls is listed in Table 1-1.

Table 1-1: A comparison of the South China Mall and the Mall of America

	The South China Mall	The Mall of America
Development Company	Sanyuan Yinghui Development & Investment Company	Triple Five Group MS&A
Design Company	JWDA partnership	The Jerde Partnership
Total Size	9.6 million square feet	4.2 square million feet
Store Number	over 1300	About 562
Open Time	2005	1992

Context	Emerging Suburbanization; Migrant based manufacturing city; Overheated local retail markets.	Suburbanization; Affluent suburbs; Main competitor: Downtown and several surrounding medium shopping malls
Phases	Two phases; The second phase under construction; Residential development starts early	Two phases; The second phase still under plan; Residential development starts 15 years after opening
Occupancy Rate	20%	Fully occupied
Finance	Debt financed 1 billion Bank loans 1 billion Developer's own capital 0.5 billion from retail space sales	All equity financed 55% from Teachers Insurance and Annuity Association, 27.5% from MS@A and Tripe Five Group, respectively
Anchor Stores	German OBI Supermarket, OMOMO Department Store, Sudan Electronic Supermarket	Bloomingdale's, Nordstrom, Carson Pirie Scott
Location	Dongguan, China	Bloomingdale, MN, US
Parking	8,000	20,000
Transportation	Bus, Private Cars	Private Cars, Airplane
Architectural Characteristics	Open-air entertainment/retail complex; A world Park; Seven isolated part with a theme park in the middle	Enclosed entertainment/retail complex; Emphasizing local identity; A rectangle with an anchor apartment store at each of the four corners, special stores along the sides, and a theme park in the middle

Source: numbers and facts are summarized from the whole thesis.

Appendix 1-1: A comparison of the suburbanization in the Unites States and China

	the Unites States	China
Historical Settings	Began in the 1920s and peaked in the 1950s and 1960s Free market Economy Growing Affluence Level of urbanization during take-off period >60%	Began in the early 1980s Transition from centrally planned to a market economy Increasing per capita income but no widespread Level of urbanization during take-off period <30%

The role of the state	<p>Passive and indirect Facilitated suburban housing development by providing generous terms for housing loans</p> <p>Federal funding facilitated the completion of the interstate system and urban ring roads, reducing core-suburb commuting</p> <p>Lower costs if land use and construction in the suburbs</p>	<p>Active, direct and indirect Played a major role in urban land use transformation, industrial decentralization and suburban housing development</p> <p>State and local funding facilitated the construction of urban ring roads and radiating arterial roads</p> <p>Lower costs of land use and construction in the suburbs</p>
Driving forces	<p>Suburbanization largely a consequence of individual decisions</p> <p>Dissatisfaction with the social and environmental problems in the central city</p> <p>The desire to have more living space and a better environment</p> <p>Widespread adoption of primate automobiles</p> <p>Widespread use of electronic means of communication</p>	<p>Individuals not always able to make relocation decisions</p> <p>Core remains the preferred place to live and work</p> <p>Suburban housing development mainly a consequence of urban land use change, urban renewal, commoditization of housing and industrial decentralization</p> <p>Commuting still relying on bicycles and buses</p> <p>Increasing electronic communication not yet a factor of suburbanization</p>
	<p>Central city decay during the peak period of suburbanization, emergence of middle-class and affluent suburban communities</p> <p>Few migrants in the suburbs</p> <p>Suburban functions multiplied from earlier residential to commercial, office and industrial as well at present</p> <p>Political fragmentation with shift of fiscal resources from central city to suburban communities</p> <p>Emergence of edge cities and suburban downtowns, resulting in significant polynucleation of urban structure</p> <p>Mature suburbanization</p>	<p>Suburbanization not at the expense of central city decay; central city and suburbs both flourishing; most well-to-do remaining in the city but a few affluent suburban communities have appeared</p> <p>Heavy concentration of rural migrants in the suburbs</p> <p>Functions mainly residential and industrial; weak tertiary sector</p> <p>Administrative and fiscal matters in suburban communities still under city control</p> <p>Urban form and function still dominated by the central city</p> <p>Incipient suburbanization</p>

Source: Table is from Yixing Zhou, Laurence J.C.Ma, "Economic restructuring and suburbanization in China", Urban Geography, 2000.

Appendix 1-2: 10 largest shopping mall in the world (by 2007)

<p>1 South China Mall Dongguan, China ,7.1 million square feet</p>	<p>2 Golden Resources Mall, Beijing, China, 6 million square feet</p>
	
<p>3 SM Mall of Asia Manila, Philippines, 4.2 million square feet</p>	<p>4 West Edmonton Mall Edmonton, Alberta, Canada, 3.8 million square feet</p>
	
<p>5 Beijing Mall Beijing, China, 3.6 million square feet</p>	<p>6 Grandview Mall Guangzhou, China, 3 million square feet</p>
	
<p>7 SM City North Edsa Manila, Philippines, 3 million square feet</p>	<p>8 South Coast Plaza Costa Mesa, CA, USA, 2.7 million square feet</p>
	
<p>9 King of Prussia Mall King of Prussia, PA, USA, 2.6 million square feet</p>	<p>10 Central World Bangkok, Thailand, 2.6 million square feet</p>
	

Source: Photos and Ranks are from Tom Van Riper, "World's Largest Malls," the Fobe Magazine, (No.1,2007),http://www.forbes.com/business/2007/01/09/malls-worlds-largest-biz-cx_tvr_0109malls.html

Notes

1. Answers.com, the definition of shopping centers, <http://www.answers.com/topic/shopping-mall> (accessed on May 20th, 2007).

2. Shuguang Wang, Yongchang Zhang and Yuanfei Huang, "Opportunities and Challenges of Shopping Center Development in China: A Case Study of Shanghai", *Journal of Shopping Center Research*, No.13 (2006): http://www.reuw.washington.edu/JSCR/index.php?action=print_home

3. Ibid.

4. Ibid.

5. Ibid.

6. Ibid.

7. Hongbing Duan. *Commercial Real Estate Changes China*, (Heilongjiang: the Heilongjiang Publisher, 2006): 15

8. Ibid., 40.

9. Ibid., 45.

10. The China Highway.com, "the Highway Planning in China," <http://www.chinahighway.com/news/2005/92433.php> (accessed on Feb.24th, 2007).

11. The earliest investigations on suburban shopping malls were conducted by the Scitech Group in 1997. After a comprehensive feasibility study, Scitech was optimistic about the prospect of suburban shopping malls and thereby acquired land parcels for the first and largest suburban shopping mall project in the YiZhuang Development Zone in the city of Beijing. However, the project was suspended due to the lack of development funds and later the land was sold to the Great Land Group. However, the study by the Scitech Group provided theoretical support to Chinese ambitious developers to build suburban mega-malls. From Duan, *Commercial Real Estate Changes China*.

12. Todd O. Lieberman, "Mallville: mixing uses in the shopping center of the future," <http://dspace.mit.edu/handle/1721.1/28795> (accessed on Feb.26th,2007)

13. Wang, Zhang and Huang, "Opportunities and Challenges of Shopping Center Development in China."

14. Mortgage companies provide partial a mortgage and become a partner in the development.

15. It is a transaction that the owner of a property sells the property and then leases it back from the buyer. The purpose of the leaseback is to free up the original owner's capital while allowing the owner to retain possession and use of the property. The definition is from <http://www.wisegeek.com/what-is-a-leaseback.htm>.

16. It is a real estate investment entity similar to a mutual fund. Developers borrow money from REITS, and REITS have the option to buy part of the project at the

end.

17. Major tenants build their own buildings and therefore they only pay a ground rent to developers. The developer's initial capital investment is reduced.

18. Debt service coverage ratio= Net Operating Income/Total Debt Service. It is an indicator of a company's ability to generate cash flow to cover its liability.

19. Edgar Lion, *Shopping Centers: Planning, Development and Administration*, (Wiley & Sons,1976), 103-107

20. Wang, Zhang and Huang, "Opportunities and Challenges of Shopping Center Development in China."

21. The ACNielsen Company, "The Consumption Trend Analysis of Chinese Consumers," http://www.ancc.org.cn/ecr/2005ECR_pdf/2004xfztrend_AC.pdf (accessed on Feb 28th, 2007)

22. Radha Chadha and Paul Husband, *The Cult of the Luxury Brand: Inside Asia's Love Affair With Luxury*, (Nicholas Brealey Publishing, 2007), 164-171.

23. Merrill Lynch's Wealth Report, China's Rich list by Rupert Hoogewerf.

24. Dandan Su, "Hu Guirong: the Hidden Investor of the South China Mall," <http://www.kesum.cn/Article/lscyj/lstyj/lyt/mall/200504/664.html> (accessed on March 1st, 2007).

25. Riper, "World's Largest Malls."

26. Li, winter interview, 2007.

Chapter 2: Location

According to the *Shopping Center Development Handbook*, location is the most significant factor in determining shopping malls' success; a qualified site must have convenient transportation, sufficient consumption base, good visibility, well-developed infrastructure, manageable geographic conditions, etc; and the site selection should also be incorporated into the retail company's overall strategies.¹ The South China Mall is located in the city of Dongguan in the Pearl River Delta². The developer expected the Mall to capture the enormous consumption capacity of Dongguan as well as the whole Pearl River Delta, one of the most affluent areas in China. However, the current stagnancy of the Mall suggests a reinvestigation of the location choices of the Mall by referring to traditional site selection criteria. This chapter will also discuss what marketing strategies the Mall can choose in order to adapt to the existing location.

2.1 Traditional site selection criteria

As indicated by table 2-1, traditional site selection criteria of shopping malls include two categories: market conditions and physical conditions. Market condition evaluation assists developers in identifying a niche market, and ensures that local markets can absorb increased retail space supply. Physical condition evaluation will help measure accessibility and development cost, especially potential capital investment in infrastructure.

A site selection report is an indispensable part of a predevelopment feasibility study. The South China Mall's feasibility study describes its site as follows, "high GDP per capita of the Pearl River Delta indicates enormous underserved consumption demand. Demographic changes in rapid urbanization process continuously bring new customers to the region... The city of Dongguan has constructed a complete highway network, and the private car ownership rate of the city ranks first in the whole country. The site is located close to the Main Bus Station of Dongguan, which ensures the Mall's accessibility and visibility. The government of Wanjiang [the district where the Mall is located] actively

supports the Mall as one significant component of the whole commercial development plan, and expects the Mall will increase the competitiveness of Wanjiang in the city of Dongguan, therefore, the government gives the Mall favorable offerings in land, zoning and financing...”³The report itself sounds convincing; however, it underestimates the intense retail competition in the Pearl River Delta and the necessary infrastructure capacity to accommodate the gigantic traffic flow. It also neglects the special demographic characteristics of Dongguan: a city with almost 70% population⁴ as migrant labor force. It is critical to understand the flaws in the original site selection process and make corresponding strategies for improvement.

Table 2-1: Site Selection: Key Factors

Situation	
1	The spatial extent of the Market: No. of households or population as a function of distance. Where is the outer limit? Are there natural barriers
2	Temporal Change What changes in the market are forecast over the next ten years? How accurate is the forecast?
3	Household characteristics What is the household income? Is it likely to change? Age? Lifestyle? Female Participation Rate?
4	Competition How many competitors in this market? How far away?
5	Existing market penetration by other outlets in the chain
Site	
6	The site constraints Lot Size/Shape; Zoning/planning restrictions; Building Condition/ Sales Area; Cost/Lease; Services
7	Local Access Patterns Traffic volume, speed, curbs, cuts, grades, transit stops, pedestrian
Flow	
8	Parking
9	Visibility Sign potential; sign clutter
10	Nearby attractions Complementary stores; Other generative land uses

Source: The whole content is from Ken Jones and Jim Simmons, Shopping Center Development, Planning and Management, “The Retail Environment”, 321

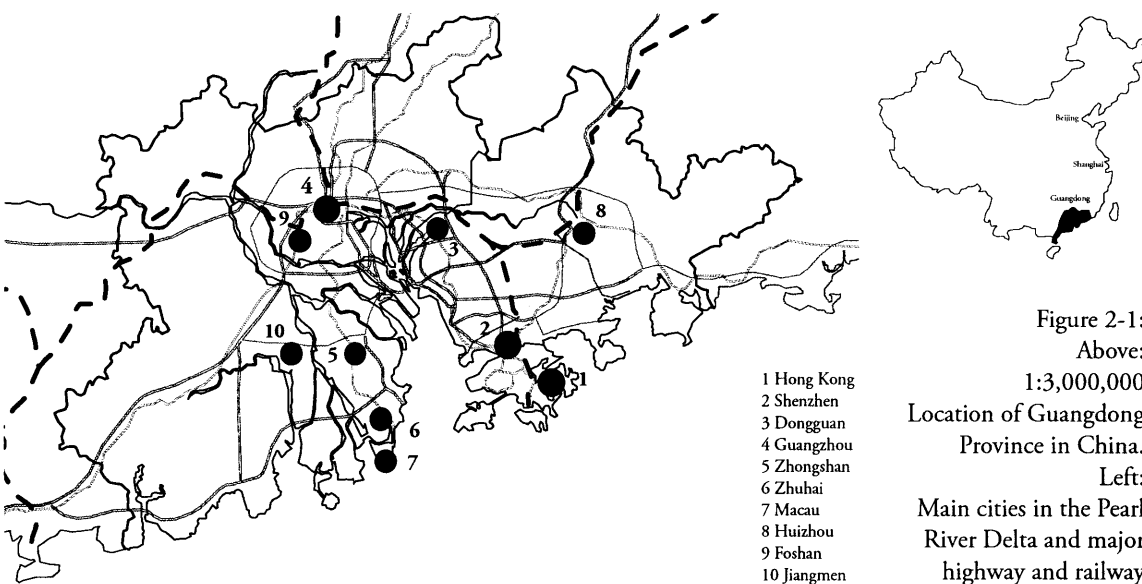
2.2 A brief introduction of Dongguan

*“Broadways. Endless vehicle streams. A large number of high buildings. A great many businessmen and tourists. A prosperous scene of the new city, a future metropolis with rural scenery. This is Dongguan.”*⁵

-----Rem,Koolhaas, *Great Leap Forward*, 2000.

Dongguan’s historic center has existed for more than 800 years. The urban center of Dongguan is 50 km from Guangzhou to its north, 90 km from Shenzhen to its south, 120 miles away from Hong Kong. With a land area of 2465 square kilometers, the city has a population of 1,589,600 registered permanent residents and over 5,994,100 inhabitants. It consists of 33 counties competing with each other. In 2005 the income per capita in Dongguan was 22882 RMB (3000 US dollars), ranking first among all the Chinese cities. It has the most dense road network among all the Chinese cities as well as the highest private car number per capita, 26 per 100 households.⁶

A quarter-century ago, Dongguan was an impoverished farming village. As one of the earliest laboratories of the Chinese Economic Reform⁷, the industry structure of Dongguan rapidly upgraded from agriculture to manufacturing. Currently Dongguan is endeavoring to develop high technology dominated industry structure.⁸ Up till now, there have been 77 new high-tech enterprises set up in this city with an output value of 33 billion RMB, a 25.2% of the total industrial output



value of the whole city.⁸

Dongguan is compared to a “Chinese Las Vegas” by Rem Koolhaas⁹. Deregulation is one inevitable phenomenon in the early experiment of a market-driven economy. Therefore, with an investment return of 20 to 30 percent¹⁰, which is higher than anywhere else in China, Dongguan becomes a heaven for risk takers. Dizzied by the rapidly accumulating fortune, people launched large-scale construction. Now the real estate market suffers from overbuild. The city’s housing market is standing 26.33%¹¹ empty. There are no precise data related to existing commercial real estate market.

Dongguan’s urban planners were inspired by the garden city, an approach to urban planning proposed by Ebenezer Howard in England in 1898 (Figure 2-2). Garden cities were to be planned, self-contained communities surrounded by greenbelts, and containing carefully balanced areas of residences, industry, and agriculture.¹² Urban planners envisioned a “garden city” in Dongguan: “a loosely woven fabric” of one historic core and thirty two surrounding towns connected with threading highways (figure 2-3), as described by Rem, Koolhaas in the book *Great Leap Forward*. Each of the towns is led by a local government and controlled by a local town leader. The local autonomy “turns the idyllic fabric into a fierce battlefield”¹³, because the local towns compete against each other to become the most advanced county in the city. In the competition, the way to win is to offer the loosest land-use regulations, the lowest taxes, the quickest factory construction possibilities and modern commercial spaces. Consequently, many similar villages are created.¹³



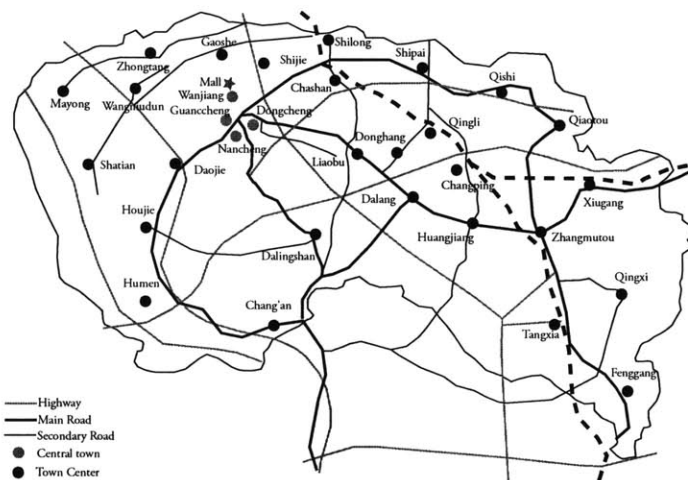
Figure 2-2: A digram of Garden City

“An estate of 6,000 acres was to be bought and held in trust for the people of Garden City. A town was to be built near the centre of the estate to occupy about 1,000 acres. In the centre was to be a park in which were placed the public buildings, and around the park a great arcade containing shops, etc. The population of the town was to be 30,000. The building plots were to be of an average size of 10 by 130 feet. There were to be common gardens and cooperative kitchens. On the outer ring of the town there were to be factories, warehouses, etc., fronting on a circular railway. The agricultural estate of 5,000 acres was to be properly developed for agricultural purposes as part of the scheme, and the population of this belt was taken at 2,000.”

Source: Ebenezer Howard and the Garden City
www.history.sandiego.edu

Figure 2-3
1:500,000
Major towns and highway network

Source: The author drew it based on the map of Dongguan



2.3 Problems of the original location choice

2.3.1 Underestimated Competition

2.3.1.1 Regional Context

The developer of the South China Mall covets the enormous retail market of the whole Pearl River Delta. The developer optimistically defined broad trade areas based on travel times. As shown in Figure 2-3, the primary trade area is 30 minutes from the Mall, the secondary is 60 minutes, and the tertiary is 120 minutes (figure 2-4).¹⁴ The oversimplified trade area defining approach ignores people's shopping habits, transportation costs, and especially market competition. The developers believe that they can replicate the legend of the Mall of America and the South China Mall will become the primary shopping destination in the entire area.

“The Mall of America has become the regional center of the Midwest region of the United States, so can the South China Mall be to the Pearl River Delta,”¹⁵ says Qiuyun Li, a property manager of the Mall. However, the Mall of America and the South China Mall were actually born in completely different urban settings and historical backgrounds. The Midwest region, where Mall of America is located, is shaped by suburbanization process characterized by dispersed residential distribution and downtown declination. In contrast, the Pearl River Delta is undergoing rapid urbanization, and a large city cluster has quickly formed. Among the city cluster, Guangzhou, Shenzhen and Hong Kong are traditional commercial centers, and Dongguan is not in the dominant position in terms of either population or GDP (illustrated by Figure 2-5). Dongguan also has its traditional image as a manufacturing based migrant city with a high crime rate, which is a disadvantage in attracting customers from the Pearl River Delta. Moreover, currently shopping mall construction has been overheated in this region. From 2001 to 2003, 15 large-scale shopping malls have been built in this area (appendix 2-1). In the city of Shenzhen, each district has at least two shopping malls over 150,000 square meters. Two super regional shopping districts have already matured: the Tianhe Mall in Guangzhou and the Futian shopping district in Shenzhen, both of which are within one hour drive from the South China Mall (figure 2-6). Overall, it is difficult for the South China Mall

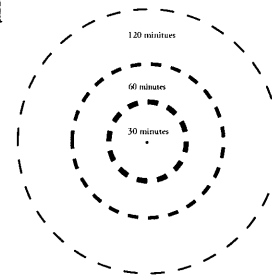


Figure 2-4: Trade Area Delineation
 First Trade Area: Dongguan, Zengcheng, Xintang, Huangpu District
 Second Trade Area: Shenzhen, Guangzhou, Fanyu, Conghua
 Tertiary Trade Area: Fushan, Shunde, Jiangmen, Zhongshan, Zhuhai, Huiyang, Huizhou
 Source: The SMR Group, Predevelopment Market Analysis

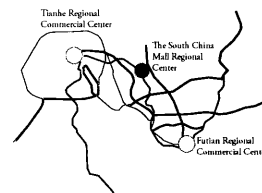


Figure 2-5
 1:3,000,000
 Regional Shopping Centers in the Pearl River Delta
 Source: The author drew it based on the map and the facts

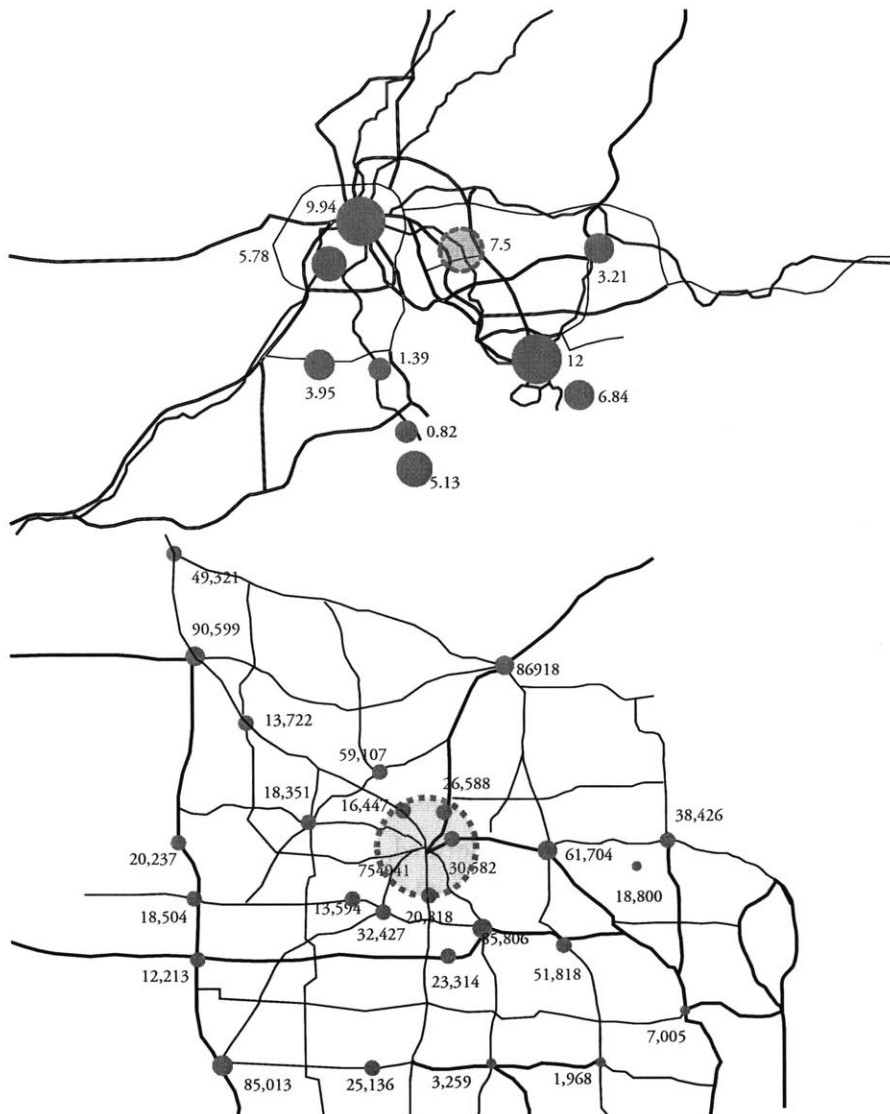


Figure 2-5:
 Above:
 1:3,000,000
 Dongguan's population
 rank in the trade area
 Down:
 1:1,000,000
 Bloomington's population
 rank in the Trade Area

to become a regional commercial center as the Mall of America in the Pearl River Delta because of the Dongguan's positioning and intense retail competition.

2.3.1.2 Intra-city competition

The commercial space planning of Dongguan implements the strategy, "one main center and eight secondary centers". The main center is Dongguan, and the secondary centers are: Songshanhu, Humen, Changping, Houjie, Taxia, Chang'an, Zhangmutou, Shilong (figure

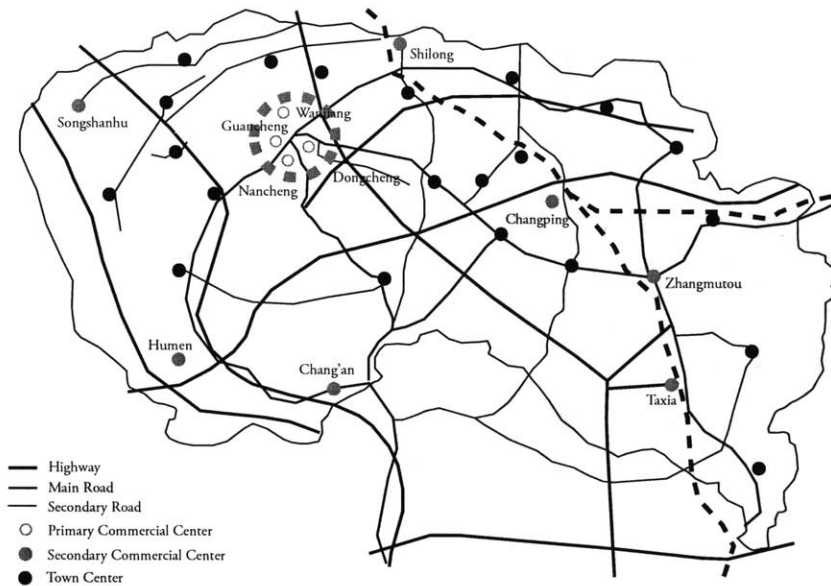


Figure 2-6:
1:500,000
Commercial Center Dis-
tribution in Dongguan

2-6).¹⁶ The commercial centers are balanced across the city boundary corresponding to residential distribution and political forces of town governments. As mentioned before, Dongguan consists of 33 towns cooperating and competing with each other. Becoming a commercial center is appealing to the town governments. Therefore local towns compete against each other to attract customers by loosening zoning regulations, lowering taxes for retailers, and providing upscale commercial space.

Even within the main center, retail competition is intense. The main center Dongguan has four parts: Guancheng, Dongcheng, Xicheng and Wangjiang, the last of which is where the South China Mall is located. The historic center of Dongguan is isolated and undeveloped, and therefore a new city center is to be established. Four counties around the historical core—Guancheng, Dongcheng, Nancheng, and Wangjiang—compete against each other to become the new center, and therefore each government struggles to become the true commercial core of Dongguan. Since the South China Mall is considered to be an important milestone for Wangjiang District to become new center, the other three districts also encourage large-scale shopping mall development. The retail facilities in Dongguan have been oversupplied. In 2005, the central government realized the severe problem



Figure 2-7:
1:5,000
Highway Network around
the South China Mall

and enacted a law to restrict future large-scale commercial development in Dongguan.¹⁷

2.3.2 Accessibility

According to SMR's market analysis, located at the intersection of 107 State Highway and Guangshen Provincial Highway, the South China Mall has easy access within the city of Dongguan and close connections to the whole Pearl River Delta (figure 2-7).¹⁸ Dongguan government invested 2.8 billion in developing a high-density highway network connecting every town in the whole city. It takes 20 minutes maximum traveling from any town to the South China Mall. Since the Humen Bridge was completed in June 1997, Dongguan has become a hub of communications linking Guangzhou, Hong Kong and other cities both sides of the Pearls River as well as Shenzhen and Zhuhai. Dongguan has 18 bus companies with 838 buses in total and 18 taxi companies with 2,928 taxies. Inter-town and inter-city bus services are operating 24 hours every day.¹⁹ Moreover, the Mall is close to the Main Bus Station of Dongguan, which is a great advantage for Chinese shopping malls highly relying on public transit.

However, though there is a highly-developed transportation infrastructure, the accessibility of the Mall has to be questioned. First,

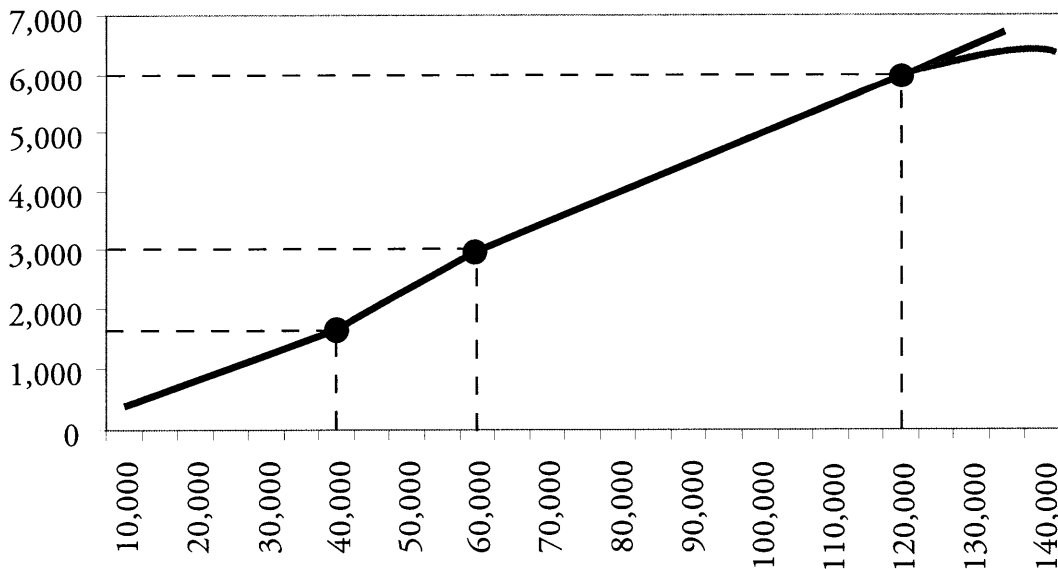


Figure 2-9: View of the
Mall from the Bus Station

bus transit costs nearly 100 RMB traveling from any city in the Pearl River Delta to Dongguan, which is almost 40% of the predicted average consumption per shopping visit.²⁰ Transportation costs are a major concern in people’s shopping decision. Second, no pedestrian linkage is provided from the Main Bus Station of Dongguan to the Mall. People have to walk across a broad highway to reach the Mall after they get off buses, which is inconvenient and dangerous. Third, the Mall has little visual accessibility from streets and the Mai Bus Station of Dongguan. The building design fails to distinguish itself from buildings nearby, and its outdoor advertisement is almost invisible (figure 2-9). Fourth, there are no intra-city bus stops near the South China Mall. People have to use bus stops several blocks away. The transportation department of Dongguan promised to set up bus-stops near the South China Mall before the end of 2007, which is two years after the mall’s opening.²¹

In addition, parking is potentially a serious problem for the Mall. Currently the Mall provides a four-storey parking garage with 8,000 parking spaces, and there’s no more additional parking in plan for the second phase²². Parking is essential to shopping malls’ success. In the United States, comprehensive parking studies for shopping malls have been conducted. The most influential study was finished by the International Council of Shopping Centers in 1980 and the study findings became industrial standards. The study finds that mall size, retail uses and non-retail uses, and methods of travel have a significant impact on parking

Figure 2-10: Parking Index
Walker Parking
Consultants, *Parking
requirements for shopping
centers: summary
recommendations and
research study report*,
(Washington, D.C.: ULI-
the Urban Land
Institute, c1999), 6.



demand; however, factors such as regional location, surrounding city's size, suburban versus downtown location do not have great influences.

ICSC suggests the following parking standards for shopping centers:

“1) 4 spaces per 1,000 square feet of gross leasable area for centers having a GLA of 25,000 to 400,000 square feet; 2) from 4 to 5 spaces in a linear progression, with an average of 4.5 spaces per 1,000 square feet of GLA, for centers having from 400,000 to 600,000 square feet; and 3) 5.0 spaces per 1,000 square feet of GLA for centers having a GLA of over 600,000 square feet.”²³

Figure 2-10, the recommended shopping center parking indices, shows the relationship between number of parking space required and the growth leasable area. The index is defined as the proportion between the number of parking spaces required and gross leasable area. It shows a gradual decreasing trend, when the area of a mall is larger than 1,200,000 square feet. The Mall of America has a gross leasable area of 2.5 million square feet and 11,774 parking spaces²⁴. The index of the Mall of America is around 4.7²⁵, slightly lower than 5. According to the North American standards, since the South China Mall has a GLA of 7.1 million square feet, it should have around 30,530 parking spaces²⁶.

The ICSC study also suggests parking spaces should be adjusted by spaces devoted to cinemas, offices, and food services. According to ICSC, “a center with over 600,000 of GLA can reduce the required parking by 4 spaces per 1,000 square feet of GLA devoted to food services.”²⁷ The South China Mall provides 1,291,669 square feet food service, so around 5,166²⁸ parking spaces can be reduced. Office and cinema in the South China Mall will not significantly change parking space requirement based on the ICSC standards. Therefore, 25,364²⁹ parking spaces are needed for the South China Mall.

However, the ICSC standards have a precondition that 85% to 95% of shoppers take private vehicles. IF over 25% of shoppers choose other transportation modes, parking spaces can be adjusted by Formula 2-1:

Formula 2-1³⁰:

$$\text{Required Spaces} = P \times (M+15)/90;$$

Where:

P= number of spaces calculated for a typical center of comparable size using the standards established by this study; and,

M= percent of peak period visitors and employees arriving in private vehicles.

The South China Mall is in Chinese context where private car ownership is far lower than it is in the United States. The predevelopment market analysis of the Mall predicts that currently around 10%³¹ shoppers take private vehicles. Based on Formula 2-1, the current required parking space of the Mall is 7,000³², which means the provided 8,000 parking is adequate³³.

However, the Mall is planned for a long term. Once the percentage of people who take private vehicles is over 15%, which is within a reasonable private car ownership range in the Chinese context, the existing parking space will be inadequate³⁴. Currently, the number of private cars in China is increasing 10% to 20% every year. It is reasonable to expect a significant increase of the number of shoppers who travel by cars. Assuming 40% of shoppers will come to the Mall by private car in the future, 15,500³⁵ parking spaces should be prepared. Therefore, the expansion plan of the Mall should consider the potential parking demand of the Mall, and the plan should spare land in advance.

Overall, a mall's accessibility is determined by transportation "hardware" -- the highway system -- and "software" -- transportation cost, service and parking. The latter is a shortage of the South China Mall.

2.3.3 Migrant Labor Force

With an annual GDP growth rate of 27%, Dongguan has leaped forward within the past 30 years from an impoverished town to a modern city. The developer of the Mall is excited because of the consumption related national census data. In 2006, the average disposable income per capita is 17,477 RMB, 66.6% higher than the national average.³⁶ The number can be translated into enormous consumption demand.

However, the developer neglects the fact that the average disposable income is calculated based on registered population, 30% of the real population of Dongguan. Dongguan's economy miracle is supported by an astonishing influx of cheap labor from other parts of China. Almost 70% of the population in Dongguan are migrant workers

concentrating in a labor-intensive manufacturing sector. They have extremely long working hours and moderate income. Three-quarters of migrant workers in Guangdong make less than 1,000 RMB a month.³⁷ With poor families thousands of miles from Dongguan, migrant workers have to mail a large part of their income back home. As non-registered residents, migrant workers have little educational opportunities and little access to public amenities. This explains the phenomenon that a large number of entertainment hunters gathered at the amusement park of the South China Mall without shopping. Therefore, the actual consumption capacity of Dongguan might be much less than the average disposable income calculated by the national census bureau.

2.4 Conclusion

The location choice of the South China Mall has three major flaws: it underestimates the intense retail competition in the Pearl River Delta; it is overly optimistic about the accessibility of the mall because of the well-developed transportation system; and it also neglects the special demographic characteristics of Dongguan, a city with almost 70% population³⁷ as migrant labor force.

In order to survive in the competitive retail market in the Pearl River Delta, the Mall has to distinguish itself by service and products offered. This will be discussed in the following chapters. The developer should work with the local government to improve the transportation service as soon as possible, such as providing pedestrian links between the inter-city bus station and the Mall and setting up intra-city bus stops. The expansion plan of the Mall should consider the potential parking demand of the Mall, and the plan should spare land in advance.

Moreover, the existence of migrant workers as a majority of the city population is both a challenge and an opportunity for the Mall. As the social and economic status of the migrants improves, great consumption demand will be generated. The Mall can adjust its strategies over time to capture the shifting demands of migrant workers, an important consumer segment of the Mall. This will be discussed in Chapter 8.

Notes

1. Michael D. Beyard and W. Paul O'Mara, *Shopping Center Development Handbook*, (Urban Land Institute, 1999), 25-30.
2. The geographic definition of the Pearl River Delta is the low-lying areas alongside the Pearl River estuary where the river flows into the South China Sea. It is one of the most populous and productive regions in China. It has excellent connections with Hong Kong because of geographic proximity. In 1985, the entire delta was officially designated an Open Economic Region. This region, covering 22,800 square kilometers, included seven municipalities (Foshan, Jiangmen, Zhongshan, Dongguan, Qingyuan, Huizhou, and Zhaoping) and twenty one counties. The Open Economic Region is designed as an experiment base of the market economy and foreign investment.
3. The SMR Group, *Predevelopment Market Analysis*, 2002, 26-28.
4. Calculated with population from the database of the Chinese National Bureau of Statistics. The Chinese National Bureau of Statistics, <http://www.stats.gov.cn/english/statisticaldata/yearlydata/>.
5. Rem Koolhaas and others, *Great Leap Forward*, (Harvard Design School, 2002), 325.
6. The City Government of Dongguan, *Understanding Dongguan*, <http://www.dongguan.gov.cn/publicfiles/business/htmlfiles/cndg/index.htm> (accessed on Feb. 24th, 2007)
7. The term refers to the program of economic changes called "Socialism with Chinese characteristics" started in 1978 by pragmatists within the Communist Party of China (CPC). It was led by Deng Xiaoping.
8. Koolhaas, *Great Leap Forward*, 326.
9. Ibid. 326.
10. Ibid. 327.
11. Sun0769.com, "Villas are in great demand in the city of Dongguan," http://www.sun0769.com/house/lfb/lsgc/t20070302_169545_1.htm (accessed on Feb. 24th, 2007).
12. Wikipedia, Garden City Movement, http://en.wikipedia.org/wiki/Garden_city_movement, (accessed on Feb. 24th, 2007)
13. Rem Koolhaas and others, *Great Leap Forward*, (Harvard Design School, 2002), 325.
14. The SMR Group, *Predevelopment Market Analysis*, 82.
15. Li, winter interview, 2007.
16. The City Government of Dongguan, *Understanding Dongguan*.
17. Min Wang, "New Commercial Planning in Dongguan," *Information Center*,

<http://news.soufun.com/2006-02-17/640713.htm> (accessed on Feb.24th, 2007).

18. The SMR Group, Predevelopment Market Analysis, 81.
19. The City Government of Dongguan, *Understanding Dongguan*.
20. The SMR Group, Predevelopment Market Analysis, 37.
21. The South China Mall, "Legend of the Mall", <http://www.southchinamall.com.cn/news/origin.jsp?catid=16,23> (assessed on April.5th, 2007)
22. Ibid.
23. Walker Parking Consultants, *Parking requirements for shopping centers: summary recommendations and research study report*, (Washington, D.C.: ULI-the Urban Land Institute, c1999), 6.
24. Westwood Professional Services, INC. *Draft of Final Visitor's Parking Study*, 12, http://www.ci.bloomington.mn.us/cityhall/dept/commdev/planning/econdev/moa_ph2/moa_ph2.htm (accessed on June 2, 2007).
25. The parking index of the Mall of America: $11,774(\text{parking spaces}) / 2,500(\text{GLA, unit: } 1000\text{square feet}) = 4.7$
26. Required parking spaces of the South China Mall: $7,100 (\text{GLA, unit: } 1000 \text{ square feet}) * 4.3$ (Index for the South China Mall. It is slightly lower than the index of the Mall of America, because of the decreasing trend of parking index) = 30,530
27. Walker Parking Consultants, *Parking Requirements for Shopping Centers*, 14.
28. The parking spaces saved by the Food Court in the South China Mall: $1,291,669$ (The food court's area of the South China Mall) / $1,000 * 4 = 5,166$
29. $30,530$ (Required parking spaces of the South China Mall if all for retail use) - $5,166$ (The parking spaces saved by the Food Court in the Mall) = $25,364$
30. Walker Parking Consultants, *Parking Requirements for Shopping Centers*, 17.
31. The proportion of visitors by private vehicles: $0.10 = 19,773$ (the daily number of people by private vehicles) / $203,973$ (the total number of daily shoppers). The numbers are from the SMR Group, Predevelopment Market Analysis, 37.
32. Current required parking spaces according to Formula 2-1: $25,364 * (10 + 15) / 90 = 7,000$
33. The South China Mall, "Legend of the Mall".
34. Required parking spaces, if 15% of people take private vehicles: $25,364 * (15 + 15) / 90 = 8,455$, according to Formula 2-1.
35. Required parking spaces, if 40% of people take private vehicles: $25,364 * (40 + 15) / 90 = 15,500$, according to Formula 2-1.
36. The Chinese National Bureau of Statistics, <http://www.stats.gov.cn/english/>

statisticaldata/yearlydata/.

37. The Chinese National Bureau of Statistics, "A comparative study of the Yangzi Delta and the Pearl River Delta," http://www.stats.gov.cn/tjfx/fxbg/t20061025_402360163.htm (accessed on Feb.24,2007).

38. The Chinese National Bureau of Statistics' online database.

Appendix 2-1: Recent Shopping Mall Projects in the Pearl River Delta

	Location	Name	Area (10,000 square meters)	Progress
1	Dongguan	The South China Mall	60	Opened Dec. 2005
2	Guangzhou	Tianhe Zhengjia Shopping Mall	30	Opened March 30th,2003
3	Guangzhou	Olympic Shopping Mall	31	Under construction
4	Shenzhen	New City Shoping Mall	18	Opened\
5	Guangzhou	Guangzhou Newspaper Plaza	18	Under Construction
6	Shenzhen	Fortune Shopping Center	18	Opened
7	Shenzhen	Huarun Mall	15	Opened 2004
8	Shenzhen	Phoenix Plaza	13	Opened
9	Zhongshan	METRO-MALL	22.5	Opened Oct.28th, 2002
10	Shenzhen	Zhongxin New Metro-Plaza		Opened
11	Shenzhen	Golden Plaza		Opened
12	Guangzhou	Tianhe Plaza		Opened
13	Guangzhou	Zhonghua Plaza		Opened
14	Guangzhou	Cloud Plaza	7	Opened
15	Guangzhou	Light Plaza	6	Opened
16	Shenzhen	Tongluowan Plaza	8	Opened
17	Shenzhen	OCT-CMALL	10	Opened June 28th, 2002

Source: SMR Group, Predevelopment Market Analysis, 2002,82.

Chapter 3: The Exaggerated Predevelopment Market Analysis

“The South China Mall is promising: it will attract 203,973 customers per day on average and will generate daily sales at 118,930,000 RMB.”¹

-- the Market Analysis of the South China Mall by the SMR Group

Before the development of the South China Mall, the developer employed the SMR Group, a Guangzhou based company specializing in marketing research, to conduct the predevelopment market analysis to ensure that the local market could absorb the proposed increase in retail space. A market analysis generally includes delineation of trade areas, estimation of market size, investigation of competitors, and analyses of consumption patterns and trends. An objective market analysis is an important reference for developers when they determine the location, size and tenant mix of shopping malls.² However, a careful examination of SMR's market analysis exposes the exaggeration of the Mall's sales potential. Normally rents of shopping malls consist of a fixed amount and a floating part, which increases with sales volumes. Exaggerated sales volume caused an overestimation of rental income and thus encouraged excessive capital investment. The unrealistic market analysis was the base which the developer's ambition built upon.

It is surprising that an experienced market research company such as the SMR Group would make such a severe mistake. One possibility is that the development company expected the market analysis to justify their ambition to create the largest shopping mall in the world. They also needed a market study to “sell” the project to major tenants, local governments, and financial institutions. To win the market research business, the SMR Group chose to produce a report which followed the client's desire, which is a normal phenomenon in the business world of China.

Any project based on an exaggerated market analysis has a high chance of failing. This chapter will analyze how the sales volume was

overestimated in an ostensibly rigorous market analysis and created the gap between the developer's expectation indicated by SMR's analysis and reality. Finally, this chapter will discuss the gap's implications on the operation of the mall.

3.1 Classic retail market analysis approach

The primary task of retail market analysis is to estimate market size -- the potential sales volume of a retail property. Traditionally, market size is calculated by multiplying potential total sales by the market share of the retail property. The calculation formula is as follows:³

Formula 3-1: $ES = P \times EXP \times (ADI/HZ) \times MS$,

where, ES = Estimated Sales,

P = Trade Area Population,

EXP = Percentile of Per Capita Expenditure for A Particular Retail Category,

ADI = Estimated Average Household Disposable Income,

HZ = Household Size,

MS = Estimated Market Share.

As shown by the formula 3-1, the market study actually takes a short-cut which relies on estimation. It easily results in evaluations that overstate a project's potential for capturing retail sales and generating rental income. The variables EXP, ADI, and HZ were gathered from the annual census data prepared by the National Census Bureau. The tricky part is the variable P, which is directly associated with the subjective delineation of the trade area, and the variable MS, which is subjected to estimation. Despite a few changes, the framework used in SMR's report still largely fits into the classic model. The discussion of the South China Mall's market analysis will follow the classic framework.

3.2 Review of the South China Mall's market analysis

3.2.1 Trade Area Assumptions

The assumptions regarding the trade area -- a geographical delineation of the region containing the probable customers for such

goods -- are critical in a market size analysis. Trade area designation not only determines P (total population) in formula 3-1, but also relates to ADI (average disposable household income), consumption patterns and MS (estimated market share). Therefore, it is very appealing for SMR Group to expand the boundaries of trade areas to create a customer pool large enough to substantiate the analysis.

Delineation of trade areas generally includes two approaches: one is subjective judgments based on local consumer behavior observations and market experiences; the other is the “gravity models” approach which has close conceptual similarity to the traditional Newtonian gravity model in physics⁴. The gravity models have been proved by empirical evidences as good approximations of retail trade areas.

However, according to SMR’s report, the delineation of the South China Mall’s trade areas employed an overly simplistic approach. It used the travel time as the single criterion regardless of the neighborhood demographics, transportation barriers, or market competitions. The primary trade area was 30 minutes from the Mall, the secondary was 60 minutes, and the tertiary was 120 minutes (figure 3-1).⁵ An oversimplified approach will potentially distort the market size calculation. However, since both the data required for the “gravity model” and the consumer observation records for similar shopping malls are unavailable, we have to accept the current tread area assumptions with reservations.

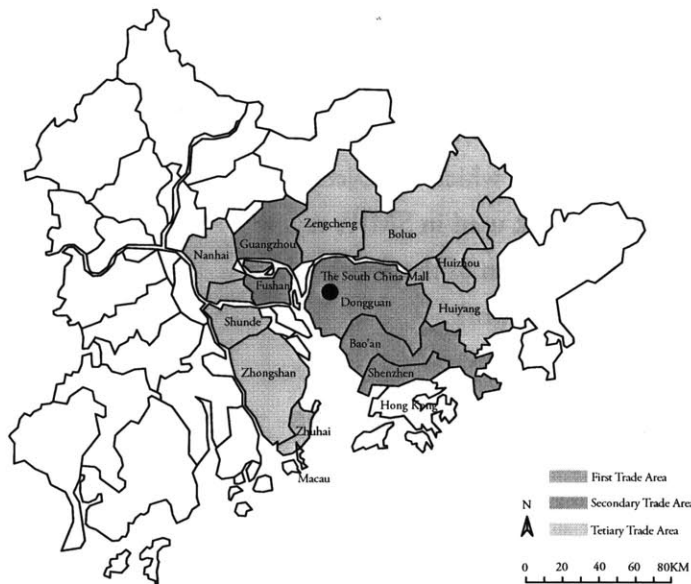


Figure 3-1: Trade Area
Source: the Author drew it based on the SMR’s report

3.2.2 Overestimation of population flow

In the classic model, the population flow is represented by the product of total population and the estimated market share. To estimate the market share, we should take full consideration of the property's comparative advantages over other shopping malls in terms of accessibility, tenant mix, shopping environment and other related factors. SMR's market analysis of the South China Mall calculated the population flow in a different way, the credibility of which will be questioned from three points of view.

The population flow analysis of the South China Mall follows formula 3-2 below:

Daily population flow = Population flow by private cars + Population flow by transit

(1) Population flow by private cars = the number of the households with private cars x average households size x *Chances that people are willing to visit the mall** (monthly visiting frequency/30) x modifying coefficient

Modifying coefficient= *Chances that people consider the travel time acceptable* x *Chances that people are willing to be frequent visitors*

(2) Population flow by transit = The number of households without private cars x Average households size x *Chances that people are willing to visit the mall* x (monthly visiting frequency/30) x modifying coefficient

Modifying coefficient= *Chances that people consider the travel time acceptable* x *Chances that people consider the travel cost acceptable* x *Chances that people are willing to be frequent visitors*

Among the variables in formula 3-2, the italic variables were gathered through marketing surveys and others were from annual census data prepared by the Chinese National Census Bureau. In theory, a survey-based market study should clearly state the size and components of survey sampling and the structure of survey questions. The credibility of market research is ensured by random sampling, which means each person in the market has the same probability of being surveyed. Without a random sample there is the risk of introducing bias and incurring misleading results. The market survey conducted by the SMR Group was limited to

2000 people in 10 shopping malls in Guangdong Province.⁶ The samples were more likely to be frequent shoppers who were more inclined to visit the South China Mall. Therefore, the variables in Formula 3-2 -- chances that people are willing to visit the South China Mall, chances that people are willing to be frequent visitors, the endurance level of travel cost and time -- and thus the total population flow are likely to be overestimated

SMR's report also failed to address how the survey questions were structured. Firstly, respondents should have enough information or expertise to answer the questions truthfully. The coexistence of the variables -- chances that people are willing to visit the South China Mall and the endurance level of travel cost and time-- indicates that shoppers were not well informed about the travel cost and time, when they determined whether they were willing to visit the South China Mall or not. In other word, the survey result of the variable--chances that people are willing to visit the South China Mall-- was unreliable due to the lack of background information. Moreover, it is not clear whether the questions were neutral as to intended outcome. A biased question or questionnaire encouraged respondents to answer one way rather than another. Even questions without bias might leave respondents with expectations.

Most importantly, in SMR's analysis, the variable -- estimated market share -- in the classic model is substituted by the variable -- chances that people are willing to visit. These two methods have subtle differences. The variable -- chances that people are willing to visit -- does not exclude the possibility that customers still visit other shopping malls at the same time, while the variable --estimated market share -- fully captures the market penetration ability of a particular shopping mall in the competitive retail market. From 2001 to 2003, fifteen shopping malls with area from 100,000 to 600,000 square meters were constructed in the Pearl River Delta. Within the city of Dongguan, newly opened supermarkets and chain stores exceeded 2000 in the year 2000.⁷ Moreover, shopping streets, where multiple small designer boutique stores, fashion houses, and special local product shops are located, are proliferating in the city. All of them inevitably become the competitors of the South China Mall. Moreover, the variable, chances that people are willing to visit, was investigated through customer interviews, which could have been

influenced by some intricate factors. For example, people might just confirm future patronage when they were “bribed” by small presents from market interviewers, regardless of alternative shopping places.

3.2.3 Overestimating Household Disposable Income

Rather than using the household disposable income from the Census Bureau, the SMR Group generated it from a market survey conducted in 10 shopping malls in 10 cities in the Pearl River Delta⁸. As we discussed in 3.2.1, samples concentrating in frequent shoppers in large shopping malls will introduce bias and incur misleading results.

SMR’s survey reveals the fact that people in Guangzhou spend 308 RMB per month in shopping malls, among which 21RMB is spent in entertainment, 77RMB in food consumption during shopping, 54 RMB other expenses and 161 RMB in commodities.⁹ However, according to the census data, the average monthly disposable income of Guangzhou in 2002 is 1353 RMB. Food, which takes 40% of the household consumption, should not be counted in the potential consumption in the South China Mall, because food consumption in China is highly localized. People prefer purchasing food in supermarkets or shopping malls nearby to traveling one hour to the South China Mall. Another 42% is spent in transportation, medicine, housing and education. Therefore approximately 18% of the monthly disposable income can be spent in shopping malls, 5% in clothes, 6% in family commodities, and 7% other expenses¹⁰. Therefore, the personal average spending in the South China Mall is 270¹¹ RMB per month at most. The figure of disposable income used in the SMR’s analysis is 20%¹² more than the actual disposable income. The weighted average exaggeration portion of the disposable household income of 19 cities and counties within the trade area is around 17%.

3.3 Conclusion

The original SMR’s report stated that, “*The South China Mall is promising: it will attract 203,973 customers per day on average and will generate daily sales at 118,930,000 RMB.*”¹⁴ The number is questionable because of oversimplified trade area assumptions, and exaggerated estimation of population flow and household disposable income. The

total potential sales volume is overestimated by at least 17%, the number of the overstated portion of the household disposable income. Taken the overstated population flow and bombastic trade areas into consideration, a conservative prediction is that the sales volume is overestimated by 25%-30%.

The South China Mall's developer predicted that the breakeven time would be 12 years from the mall's opening in December 2005 based on the original overoptimistic market analysis. They had the confidence that their financial strength would support the first 12 years operation. However, since the predevelopment market analysis is unrealistic, the actual breakeven time might be even longer. Therefore, the developer is potentially facing more financial pressure, which will constraint the mall's leasing and management strategies. To ensure the eventual success of the South China Mall, it is crucial to explore innovative strategies to eliminate the gap between prediction and reality in terms of potential market size.

Notes

1. SMR Group, Predevelopment Market Analysis, 2002, 82.
2. Michael D. Beyyard and W. Paul O'Mara, *Shopping Center Development Handbook*, (Urban Land Institute, 1999), 40-45.
3. University of Maine, "Estimating Retail Market Potential," *University of Maine Cooperative Extension Bulletin #3012*, <http://www.umext.maine.edu/onlinepubs/htmlpubs/3012.htm> (accessed on April 4th, 2007)
4. Anthony J. Dzik, "Using the Gravity Model to Delineate a Trade Area: A Class Project," *Bulletin of the Illinois Geographical Society*, v34 n2 p2-9, Fall 1992.
5. SMR Group, Predevelopment Market Analysis, 2002, 82.
6. SMR Group, Predevelopment Market Analysis, 2002, 49
7. Ibid., 80
8. Ibid., 80
9. $161 = 2.42$ (monthly visit frequency) * 167 (average spending per visit) * 40% (purchasing possibility), $77 = 2.42$ (monthly visit frequency) * 100 (average spending per visit) * 32% (purchasing possibility), $54 = 2.42$ (monthly visit frequency) * 70 (average spending per visit) * 39% (purchasing possibility)
10. SMR Group, Predevelopment Market Analysis, 2002, 30.
11. $1353 * 17\% = 270$
12. $(308 - 243) / 308 = 20\%$
13. SMR Group, Predevelopment Market Analysis, 2002, 82.

Chapter 4: “The World’s Most Advanced Commercial Property Form”?

“Our positioning of the South China Mall is not a simple imitation of foreign shopping malls. We insist that, for its scale, environment and opportunities, the South China Mall should become representative of the most advanced commercial property form in the world and a commercial project with Chinese characteristics.”¹

--- Tongrui, Vice President of Dongguan Sanyuan Yinghui Investment & Development Co., Ltd.

The South China Mall aims to be “the world’s most advanced commercial property form,” a phrase frequently mentioned during interviews with the top managers from its development company – Sanyuan Yinghui Investment & Development Co. Ltd.² However, the phrase “the world’s most advanced commercial property form” is itself ambiguous. The International Council of Shopping Centers classifies shopping centers into eight categories³ according to their scale, function and service area without ranking them in a hierarchy. The interview with Tongrui, the Vice President of the company, clarified this term. For the company, one of the most important criteria of the most advanced commercial property form is to become an “international themed retail and entertainment complex”⁴, a complex which is comparable to world architectural masterpieces and achieves the maximum synergies from the combination of retail and entertainment facilities.

The concept was inspired by the Mall of America. As Tong described it, the Mall of America was “more than just a fantastic place to shop” since it also boasted a theme park; it “brings the world to Minnesota”.⁵ Tong believed that by imitating the Mall of America, their South China Mall would transcend the normal Chinese shopping mall model which is dominated by the single shopping function, though with small-scale subordinate dining and entertainment facilities. However, after two years of operation the mall is 80% empty, and the number of

shoppers is far below the prediction: the “Chinese Shopping Legend”⁶ has not yet become reality. This chapter will discuss the effects of entertainment centers on the overall business of shopping malls, and explore the reasons why the retail and entertainment complex strategy is failing in the South China Mall, while being so successful in its prototype, the Mall of America.

4.1 “Do Entertainment Centers Actually Draw Shoppers?”⁷

Whether entertainment facilities actually draw shoppers has been researched and debated, ever since the origin of enclosed shopping malls in the 1950s. The entertainment programs that developers have introduced into in shopping centers include both traditional categories such as art exhibits, concerts and food courts, and large-scale modern entertainment centers such as Camp Snoopy in Mall of America. The earliest experiment to incorporate entertainment centers in shopping malls was the Faneuil Hall Marketplace in Boston in the mid-1970s⁸. Nowadays retail and entertainment complexes are proliferating all over the world.

According to John Konarski of the International Council of Shopping Centers, the primary purpose of entertainment centers is to draw shopping traffic rather than generate profits for themselves⁹. That entertainment centers are shopping flow generators has been widely accepted as a norm by shopping mall developers. The vice president of operations for Time-Out Amusements, John Denlinger, says, “Entertainment centers are helping attract people from father away, encouraging them to bring the whole family to the mall, and getting them to shop more once they are there ... there are certain types of tenants who stand to benefit greatly from being near the mall’s prime entertainment attractions...toy stores, record stores, gift stores, T-shirt shops, games and hobby stores, sporting goods stores and even clothing stores.”¹⁰ James Ginsberg, vice president of Recreational Concepts Inc. claims, “if they [entertainment centers] get people into the centers, they will stay longer. This is especially true of people coming from longer distances who, to justify the time spent getting there, are more likely to spend more money.”¹¹

However, several shopping researchers have questioned the

ability of entertainment centers to draw retail traffic, to extend customer stays and to generate synergies with other tenants in malls. Douglas Stewart argues that only 5% of shopping center visitors come primarily for the entertainment centers, and probably 10% to 20% of them will visit other stores in malls¹². The first rigorous analysis of the impacts of entertainment centers on shopping mall overall business was conducted by Joel B. Haynes and Salil Talpade. They surveyed 1,592 customers in four representative shopping malls: River Fair Mall in metropolitan Louisville, Forest Fair Mall in Cincinnati, North Park Mall in Davenport, Iowa, and Woodbine Center Mall in Toronto, Canada. Their report “Does entertainment draw shoppers? -- The effect of entertainment centers on shopping behavior in malls” was published in *Journal of Shopping Center Research* on June 2002. The report reveals a low correlation between shopping mall visiting and the existence of entertainment centers. Only a small percentage of shoppers, mainly young people and family with children, are entertainment hunters, the people drawn to malls primarily by an entertainment center. Compared to other shoppers, the entertainment hunters have shorter shopping time, lower chances to visit other stores, and equal amount of shopping expenditure and travel distance to malls. Therefore, “an entertainment center should not be expected to overcome the existing competitive or trade area weaknesses,” claims Haynes and Bivins.¹³

Overall, it is questionable to consider a retail and entertainment complex as the most important criterion of the most advanced commercial property form, since the actual effects of entertainment centers on shopping traffic generation are still unclear. To prevent future blind construction of large shopping and entertainment complexes, the impacts of entertainment centers on shopping time, trade area expansion, and consumer spending in the Chinese context should be carefully studied.

Additionally, one interesting phenomenon observed in the South China Mall was that the entertainment park had a large number of visitors, while the shopping areas were almost empty. It suggests that the entertainment center possibly attracts pure entertainment-hunters, in other words, non-shoppers. Customers’ perceptions towards the retail and entertainment complex probably do not agree with developers’ expectations. It indicates that the shopping behaviors of entertainment-

hunters in the Mall should be carefully studied.

4.2.1 The South China Mall: a World Park strategy

As described by the company’s website, to build a real international standard shopping mall, the developers of the South China Mall visited over one hundred shopping malls all over the world, including the Mall of America in Minnesota, Caesar’s Palace in Las Vegas, and West Edmonton Mall in Canada. Finally they decided to build seven zones simulating seven international cities, nations and regions: Amsterdam, Paris, Rome, Venice, Egypt, the Caribbean, and California – to build a world park formed by the classic architecture worldwide (figure 4-1). Besides the international style physical form, the Amusement Plaza provides the world’s latest automatic games: Free Drop, Flume Ride and Action Arm¹⁴. The developer believed that the world park concept could be justified by the success of the World Window, a theme park in Shenzhen, which is only two hours from the South China Mall. The most influential and successful theme park in China, the World Window offers microcopies of architectural masterpieces from all over the world. It consists of an Asian District, European District, Oceanian District, African District, American District, World Sculpture District, and World Shopping Street.¹⁵

Nevertheless, though similar in concept, it is questionable that the success of the World Window can be translated to the South China Mall. First, the South China Mall is facing much more intense competition from other theme parks than the World Window did when it opened in 1994. Inspired by the success of the World Window, the number of theme parks in China has skyrocketed to 3000, 40 of which are located in the

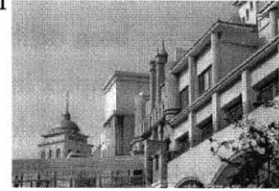
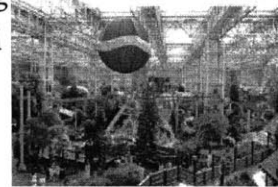


Figure 4-1: Photo of the South China Mall
Source: <http://www.myphotolife.com/2005-01/mall.htm>



Pearl River Delta. 70% of theme parks in the Pearl River Delta are operating with great losses due to fierce competition and lack of individual characteristics¹⁶. As Appendix 4-1 shows, recently many theme parks in the Pearl River Delta have gone bankrupt. Compared to the World Window, the advantage of the South China Mall is its positioning as a retail and entertainment complex. However, the World Window is located in an urban area surrounded by multiple large shopping centers, which, without having been deliberately designed, creates an urban retail and entertainment complex in Shenzhen.

Second, the World Window successfully satisfied the Chinese people’s curiosity about the outside world fifteen years ago, when most could not get the opportunity to travel abroad. It was through the replicates of world architecture masterpieces in the World Window that Chinese people started to know the Eiffel tower, the White House, and the Musée du Louvre. Now, after fifteen years of rapid development, more people can afford the expense of travel abroad, which suggests a dwindling market for theme parks, especially the ones replicating world architectural masterpieces. Therefore, the world park strategy of the South China Mall is questionable: it cannot differentiate itself in the competitive and dwindling theme park market. In contrast, its American counterpart, the Mall of America, is more sophisticated in its theme park positioning.



4.2.2 The Mall of America: a Nostalgia Approach

The theme park of the Mall of America differentiates itself by adopting the nostalgia approach rather than promoting international style. The Mall of America was built upon the site of “Metropolitan Stadium, previous home of local sports teams, the Minnesota Twins (baseball) and Minnesota Vikings (American football), potent symbols of local identity, and a natural place of congregation”¹⁷. The developers aimed to “construct idealized contexts of consumption and a space where the narrative of lost authenticity and its redemption takes place”¹⁸.

The Mall of America seems to provide standardized and universal entertainment programs offered in mega-malls. However, as described by Jon Goss in “Once-Upon-a-Time in the Commodity World: An Unofficial Guide to Mall of America” published in *Annals of the Association*

Figure 4-2: Photo of the Mall of America

Source:
http://www.virtual-tourist.com/travel/North_America/United_States_of_America/Minnesota/Minneapolis-813712/Things_To_Do-Minneapolis-Mall_of_America-BR-1.html

of *American Geographers* in March 1999, Camp Snoopy¹⁹ which is the nation's largest indoor theme park and the Mall of America's major attraction, evokes "a rustic clearing deep in Minnesota's Northwoods" by reproducing a Northwoods picture²⁰. (figure 4-2). A Northwoods memory is aroused by "30,000 plants and trees -- the largest indoor planting in the world -- an artificial seventy-foot waterfall, plaster cliffs cast from the originals along the scenic St. Croix River, browsing animatronic moose, and bird noises."²¹ The second major attraction, Underwater World, highlights the scene of diving into "Minnesota Dawn," "a cool glacial lake with morning mist, beaver dams, and local fish."²² Moreover, local life styles and landscapes are always embodied in businesses.²³ Therefore, the Mall of America actually generates its business value through preserving and developing local identity, unlike most shopping malls' images of universal spaces spawned by a global economy.

4.3 Mall: Global or Local?

It is interesting to discover that the Mall of America and the South China Mall choose different approaches to interpreting the same concept "retail and entertainment complex:" the South China Mall passionately embraces globalization, mainly the Western Culture, while the Mall of America sincerely respects local identity.

Ever since the 1950s, malls have been characterized as universal commercial spaces. De Mattos called them "artifacts of globalization", spaces in which the tendencies of a free global economy are expressed.²⁴ However, in an era of globalization, people not only pursue global standard consumption but also desire traditional customs and local identity. Correspondingly, in the latest 20 years malls have been gradually transformed from a "Fordist²⁵ space that encourages mass consumption and sameness" to "a post-Fordist space that attempts to create social distinctions".²⁶

The accommodations of local customs and identity have brought tremendous business opportunities for shopping malls. In the Philippines a Catholic church has been constructed in the Filipino Mall, which has become the best anchor store in the mall. Studies show that 60% of churchgoers patronize the mall after the Catholic mass, which means

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5,000 potential buyers.²⁷ In Saudi Arabia, a women-only-mall has been built to allow women the convenience to shop without being veiled.²⁸

The South China Mall is spawned in the current Chinese context, where Western consumption standards are extensively adored and imitated. Therefore the developer ambitiously built the international themed retail and entertainment complex, the most important factor they believe will qualify the South China Mall as the world’s most advanced commercial property form. However, they neglect people’s desire of local identity and traditional customs, which make the mall unique and potentially generate business value. Now it is a great challenge to inject local identity into the current project.

Notes

1. The South China Mall, “Legend of the Mall”,<http://www.southchinamall.com.cn/news/origin.jsp?catid=16,23> (assessed on April.5th, 2007)

2. Sanyuan Yinghui Investment and Development Company is one of the largest private companies in Dongguan with registered capital RMB 100 million and total assets over RMB 500 million. The owner of the company is Hu Guirong, a local private entrepreneur whose business was primarily textile, food and infrastructure before stepping into the commercial real estate development world. He claimed himself as “the bravest developer” in China.

3. Regional mall, community mall, neighborhood mall, super regional mall, outlet, power center, fashion mall from Michael D. Beyard and W. Paul O’Mara, *Shopping Center Development Handbook*, (Urban Land Institute;3 edition,June 1999), 12-15

4. The South China Mall, “Legend of the Mall”

5. Tong Rui, Interviewed by the reporter from the South China business Website, May 24th, 2005, <http://www.gdchain.com.cn/News/newsdetail.asp?NewsID=24221>

6. The South China Mall, “Legend of the Mall”

7. Joel B. Haynes and Salil Talpade, “Does entertainment draw shoppers? The effects of entertainment centers on shopping behavior in malls?,” *Journal of Shopping Center Research*, (2002),<http://www.reuw.washington.edu/>

8. Ibid.

9. John Konarski, unpublished document circulated by the International Council of Shopping Centers,1995

10. Haynes and Bivins, “Does entertainment draw shoppers?”; Original source,

“Fun and Mall Games,” *Stores*, August, 1989, 35-44.

11. Ibid.

12. Clay Lambert, “Adding Amusements to the Leasing Arsenal”, *Shopping Center World*, No.8, (1993).

13. Haynes and Bivins, “Does entertainment draw shoppers?”

14. The South China Mall, “Legend of the Mall”

15. The World Park, <http://www.szwco.com:8887/>.

16. Yiwei Nu, Wenxia Tong, and Xing Du, “Why do the theme parks in Guangzhou fail?”, *Yangcheng Evening Paper*, June 16, 2005, http://www.ycwb.com/gb/content/2005-06/16/content_922466.htm (accessed on April 15th, 2007).

17. Jon Goss, “Once-Upon-a-Time in the Commodity World: An Unofficial Guide to Mall of America”, *Annals of the Association of American Geographer*, March, 1999.

18. Ibid.

19. Camp Snoopy is the name of the theme park in the Mall of America. The name is from the Peanuts cartoon created by Charles M. Schultz, a famous native son of St. Paul

20. According to Wekipidia, the North Woods is “a broad region of northern Minnesota, Wisconsin and Michigan. The region is noted for its numerous lakes, and extensive woodlands of pine, spruce, fir and juniper. Older buildings in the region commonly feature lodges built of stones picked from local fields and log cabins. “

21. Goss, “Once-Upon-a-Time in the Commodity World: An Unofficial Guide to Mall of America”. published in *Annals of the Association of American Geographers* in March 1999

22. Ibid.

23. Ibid.

24. De Mattos, C. Santiago de Chile: Globalization and metropolitan expansion. What existed and what continues to exist, *EURE Latin American Journal of Regional and Urban Studies*, 25(76), 29-56: December, 1999

25. In the U.S. Fordism is the economic philosophy that prosperity and high corporate profits can be achieved by high wages that allow the workers to purchase the output they produce, such as automobiles.

26. Rodrigo Salcedo, When the Global Meets the Local at the Mall, *American Behavioral Scientist*, 2003.

27. K. Kenyon, Church drives traffic at Philippine mall, *Shopping Centers Today*, (October, 1998).

28. D Hazel, Women to get separate realm in Saudis Kingdom center. *Shopping Centers Today*, (June 1998).

Appendix: 4-1: Bankrupted Theme Parks in the Peal River Delta:

1	Spring and Autumn Theme Park, Zeng City: 0.55 billion RMB, 53 Hectare
2	China Spectacle Theme Park, Zeng City: 1.1 billion, 120 Hectare
3	Chinese Folk Culture Village, Huadu: 0.46 billion, 27 hectare
4	World Park, Zeng City, 0.69 billion, 900 hectare
5	Banyan Theme Park, Huadu, 0.415 billion, 399.9 hectare
6	Wonderful Dream Theme Park, Conghua, 0.83 billion, 72 hectare
7	Chinese Celebrities Theme Park, COnghua, 4 billion
8	Flying Dragon Theme Park, Fanyu, 19 hectare
9	Sunny Island Theme Park, Guangzhou, 30 hectare
10	Eastern World Theme Park, Guangzhou, 33 hectare
11	World View Theme Park, Guangzhou, 48 hectare
12	Forest Park Theme Park, Fanyu, 20 hectar

Source: Yiwei Nu, Wenxia Tong, and Xing Du, “Why do the theme parks in Guangzhou fail?”, *Yangcheng Evening Paper*, June 16, 2005, http://www.ycwb.com/gb/content/2005-06/16/content_922466.htm.(assessed on April 15th, 2007).

Chapter 5: Excitement at the Mall

Retail location theory indicates that consumers prefer to shop as close to their home as possible, with the same other conditions.¹ In a disadvantaged location, the South China Mall faces great challenges to attract customers in the overheated retail market of the Pearl River Delta. In a market with increasing competition, continuously changing consumer preferences, and an abundance of retail choices, it is critical for developers to improve their ways to target consumers and thus increase market share. Based on their local experiences and instincts, developers of the South China Mall have experimented with many approaches to draw customers, for example, providing diversified dining and entertainment services, introducing international brands, and building an international style retail and entertainment complex. However, little academic research has been conducted to examine the effectiveness of those approaches. One fundamental question has to be answered: what are the determinants of mall patronage?

In the early 1990s, shopping malls in the United States began to suffer from decreasing sales per square foot and overabundant spaces. A large amount of studies on the determinants of mall patronage have been done in order to figure out effective ways to maintain the attraction of shopping malls. A number of scholars and practitioners find that the dominant factor of shopping mall patronage is the excitement levels of shopping experiences, “a positive emotional state with high levels of pleasure and arousal”². The excitement levels are determined by three factors: the perceived mall environment, tenant variety and involvement with shopping mall.² Kirk L. Wakefield and Julie Barker established a retail patronage simulation model at the mall level to simulate how two “stimulus variables”³ -- tenant variety and physical environment -- and one “organism factor”⁴ -- involvement with shopping⁵ -- directly influence excitement levels, which results in three behavioral responses -- desire to stay at the mall, re-patronage intentions and out-shopping. The simulation result exposes the positive correlation between excitement levels and tenant variety, and ranks the relevant importance of environmental elements in determining malls’ excitement levels. The results of the

simulation model become important guidelines for American developers in the development and renovation of shopping malls.

One significant phenomenon is that most malls have a similar tenant mix in China. It is interesting to explore why people residing in large urban areas with multiple shopping centers choices shop in a similar center in another city, such as Dongguan. The most influential research on this topic is Tammy R.Kinley, Bharath M.Josiam, and Youn-Kyung Kim's paper on the motivations of out-shoppers and tourists. They find that the uniqueness of store mix and physical design are two reasons for the out-shopping and tourist shopping behavior. ⁶

This chapter will investigate the tenant mix and the physical environment of the South China Mall by referencing the retail patronage simulation model and the shoppers' motivations research. The Mall of America is employed as a comparative case. Finally, it will provide suggestions on the strategies to increase the excitement levels of the South China Mall.

5.1 Retail Patronage Simulation Model

In order to explore the relationship between excitement levels and tenant variety, and the relevant importance of environmental elements in determining malls' excitement levels, Wakefield and Barker randomly surveyed 517 shoppers who faced the choices between an enclosed shopping mall--the primary source of commodities of their own community--and a larger regional shopping mall within one hour's drive of the community. They asked customers to rank the factors influencing their shopping location decision. The survey result revealed a positive correlation between tenant variety, the involvement levels and the excitement levels, respectively. As shown by Table 5-1, design, music, layout and internal decoration were discovered to be four most important factors influencing the excitement levels; the light and temperature were not noticed by customers unless they were unacceptable. ⁷The conceptual map of the retail patronage simulation model is figure 5-1:

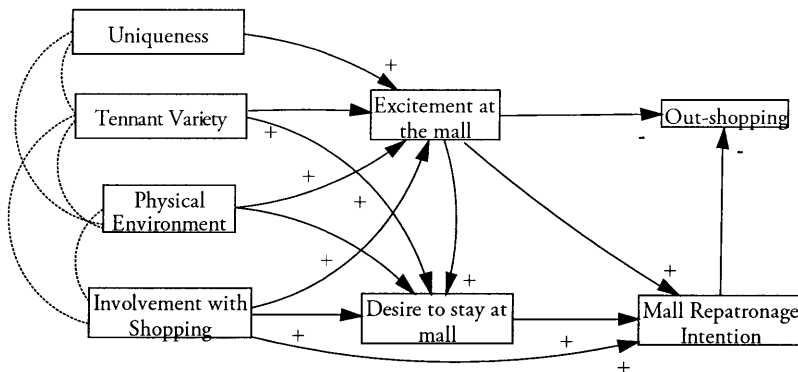


Figure 5-1: Conceptual Map of the Retail Patronage Simulation Model
 Source: Kirk L. Wakefiled and Julie Barker, "Excitement at the Mall: Determinates and Effects on Shopping Response", *Journal of Retailing*, Volume 74(4), pp. 515-539, (1998)

Independent Variable	Dependent Variable	
	Excitement	Desire to Stay
Design	0.317	0.109
Music	0.16	0.126
Layout	0.167	0.134
Light/Temp	-0.141	0.001
Decor	0.086	0.318
R2	0.269	0.331

Table 5-1: The contribution of design components to the excitement levels of malls.
 Source: Wakefiled and Barker, "Excitement at the Mall."

5.2 Tennant Strategies

After the transitory prosperity after the opening of the South China Mall in December 2005, the South China Mall's business has been almost stagnant. One of the original contrasted anchor tenants Tongluowan Department store⁸ withdrew from the mall after one year of operation, which negatively impacted confidence levels of potential retailers.⁹ Small specialty retail spaces have almost been empty despite favorable zero rents for two years. In contrast, in August 1992, the Mall of America opened with a 1.1 million square feet of specialty retail space leased, accomendating more than 300 stores. By the end of 1992, occupancy was already up to 1.2 million square feet, more than 80 percent.¹⁰ This part will compare the tenant strategy of the South China Mall and the Mall of America, which is one determinant of excitement levels in the retail patronage simulation model.

5.2.1 Constraints of leasing strategies

Leasing strategies of shopping malls are constrained by project financing and relationship with tenants. Sufficient financing offers developers great flexibilities in tenant selections. Without the pressure of cash flows, developers can carefully select tenants based on local consumers' demands, shopping habits, and long-term benefits of malls.

The financing condition of the Mall of America is more favorable than the South China Mall. The South China Mall's initial investment was 2.5 billion RMB from three resources: 1 billion short term loan from the Agricultural Bank of China; 1 billion from the development company, 0.51 billion of which was used in the land acquisition; and 0.5 billion from the selling of the commercial space in the mall.¹¹ The 2.5 billion initial investments were not enough to maintain the initial operation before break-even, and the short-term construction loan caused high financial mobility pressure. Therefore, developers rushed to rent the retail spaces without careful selection of tenants, and they even sold some retail spaces. Selling retail spaces means that developers surrender the ownership of retail spaces. It will potentially impinge the long-term operation of shopping malls. In contrast, the Mall of America is all-equity financed: 55% equity stake from Teachers Insurance and Annuity Association of New York, 27.5% from the Simon Property Group (MS&A) and the Triple Five Group, respectively. Sufficient financing offers the Mall of America's management partner MS&A great flexibilities in tenant selection.¹²

Relationship with tenants is also a constraint. MS&A, the developer and management partner of the Mall of America, has extensive relationship with retailers. Many retailers came to the Mall of America because of their long term relationship with MS&A. MS&A successfully developed and managed the West Edmonton Mall in Canada, which helped them establish the credibility in the retail industry.¹² However, the Sanyuan Yinghui Investment & Development Co. Ltd is a local developer in Dongguan stepping into the retail industry for the first time. Hu Guirong, the primary investor of the company, has his main business in the highway, port, tele-communication and food industries¹³. Being a freshman in the retail industry, the developer company of the South China Mall has to make more effort to acquire tenants and build their credibility.

Overall, financing strength and relationship with tenants are two major constraints on the South China Mall’s leasing strategies. They can be reinenforced by the performance of the Mall: as the Mall’s operation becomes better, the financing strength and tenant relationship will be enhanced. Although compromises are inevitable at the current stage, it is still critical to insist on leasing strategies with long-term benefit to the Mall.

5.2.2 Tenant Variety

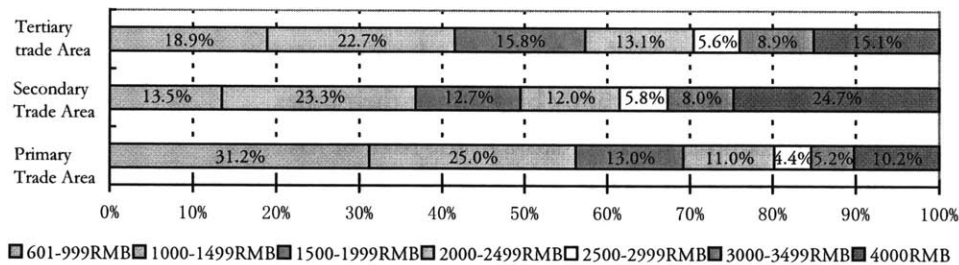
According to the retail patronage simulation model, tenant variety is positively correlated with the excitement levels of shopping malls. The Mall of America has four anchor stores and around 520 specialty stores, offering commodities from high end fashion to the mass merchandise. The diversified stores help the mall attract customers with different income.¹⁴

Since the South China Mall is currently 80% empty, it is too early to judge the level of its eventual tenant variety. However, the South China Mall aims to establish “an international commercial platform by attracting international and domestic top enterprises”, according to Iran Thomas, chairman of Vancouver, British Columbia-based Thomas Consultants, which provides advice on leasing strategy of the South China Mall. “Most of the stores will originate in Hong Kong, Taiwan, Japan, Singapore and Europe.” Thomas further states¹⁵. Thomas’ statement reveals the fact that the South China Mall is targeting the middle to high income market segments.

The leasing strategies for the middle to high income group are problematic. First, almost all the malls in the Pearl River Delta target the same market segment, and most of them are located in dense urban centers, relatively favorable locations compared to the South China Mall.

Second, although Dongguan is a city with the highest GDP in

Figure 5-2: Household Income of the Trade Areas
Source: SMR Group, Predevelopment Market Analysis



China, 70%¹⁶ of the total population are migrant workers concentrating in the labor intensive-manufacturing sector, and most of the workers have long working hours and low income. Moreover, the middle to high income group in Dongguan, the class the South China Mall is targeting, is used to shopping in Hong Kong or overseas, which is considered as a symbol of their social status and wealth. Therefore, the current ill-positioned leasing strategy is one reason of the South China Mall's current poor sales performance.

5.2.3 Uniqueness of tenant mix

According to Kinley, Josiam, and Kim's research, the uniqueness of tenant mix plays an important role in customers' excitement levels. It is reasonable to expect that people visit suburban shopping malls for some special products or services not provided in malls close to their home.¹⁷ This part will analyze how the uniqueness of tenant mix contributes to the Mall of America's sales performance, and why the ostensibly unique tenant mix of the South China Mall does not actually distinguish the mall in the competitive retail market.

Many stores in the Mall of America are new to the entire Midwest region, and therefore become significant attractions to customers in the region.¹⁸ Three of the eight most famous retailers in the United States appeared in the Mall of America: Bloomingdales, Nordstrom, and Carson Pirie Scott. Bloomingdales opens its second store in the Midwest area in the Mall of America. Considering the expansion in the Midwest area is one significant part of the whole market strategy of the company, Nordstrom, an upscale department store based in Seattle, starts its first store outside Seattle in the Mall of America; Carson Pirie Scott's has already been well-known in the entire Midwest area, the origin of this department store was in Chicago. Some discount retailers, such as Marshalls, Service Merchandise and Filene's Basement, open their first indoors store at the Mall of America in the Minneapolis area.¹⁹

Additionally, retailers in the Mall of America endeavor to make a difference. First, their stores are significantly bigger than their other national chain stores. For example, the GAP store in the Mall of America has an area of 7,800 square feet in the Mall, twice the size of normal Gap chain stores. Second, retailers innovatively design their stores, and 40% of

the mall's stores become prototypes for their national chain stores.²⁰

However, almost all chain anchor stores in the South China Mall have their duplicates in other cities in the Pearl River Delta. Currently the South China Mall has three anchor stores in operation: German OBI Supermarket, OMOMO Department Store, and Sudan Electronic Supermarket. German OBI supermarket, a home decoration chain store originated in German, has stores in Shenzhen, Guangzhou and Hongkong, all within one hour drive from Dongguan. The competition in home decoration market of Dongguan is further intensified because of the coexistence of IKEA and local home decoration brands. Moreover, home decoration supermarket may not be a good choice for mega- malls, because the commodities from home decoration supermarket are too ponderous to carry around. OMOMO Department Store, originated in HongKong, specializes in merchandises of upscale fashionable brands. It is similar to any other upscale department stores in the entire Pearl River Delta, and thus cannot effectively draw customers from trade area. Sudan is a retail giant of electrical household appliances headquartered in Shenzhen with stores in every city in Guangdong province.²¹ Overall, it is almost impossible for the South China Mall to rely on anchor stores to attract customers outside Dongguan.

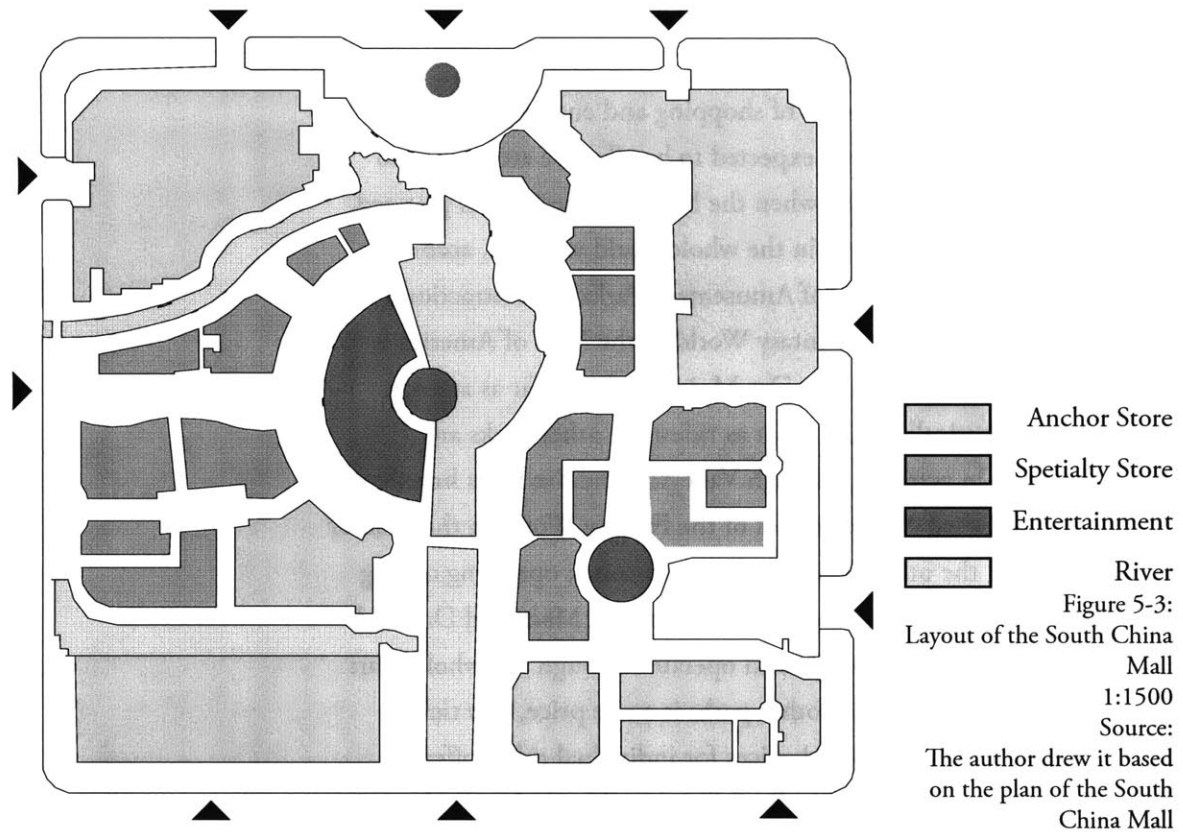
As significant components of shopping and entertainment complexes, amusement parks are expected to be effective attractions to customers. Dating back to 1984 when the Mall of America was planned, the total number of theme parks in the whole world was 572, according to the International Association of Amusement Parks and Attractions.²² In the Upper Midwest region, Fantasy World in the Mall of America is equal in size to Adventure Land in Des Moines, Iowa as far as acreage is concerned, and basically equal as far as rides; the other parks are significantly larger in acreage, although Valleyfair and Six Flags have fewer rides. The distinguished characteristics of the Fantasy World in the Mall of America are: 1) All the other theme parks are seasonal, operating during the summer on a daily basis and on weekends before Memorial Day and after Labor Day, but the Fantasy World operates through the whole year; 2) The admission cost for all the other parks is a one price, one ticket structure, while the Fantasy World prices for individual rides, offering shopping-intensive customers great flexibilities in ride choices.²³ However,

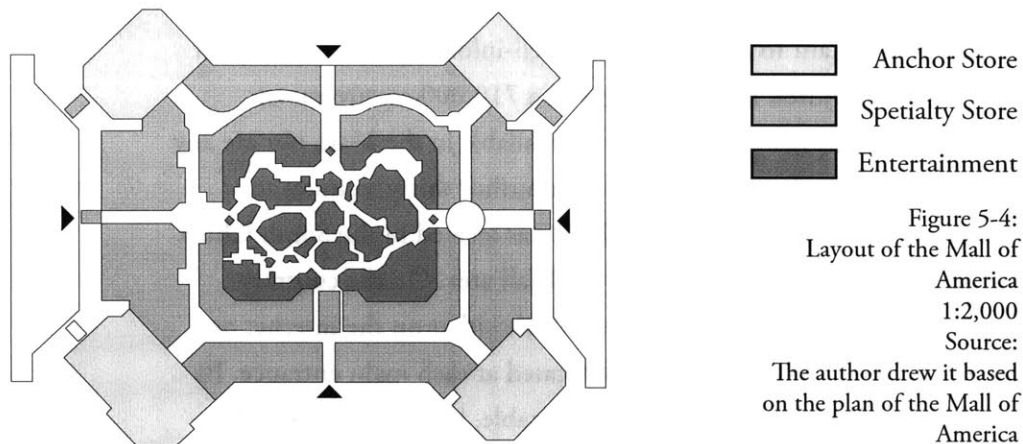
facing intense competitions from over 40 theme parks in the Pearl River Delta, the amusement park of the South China Mall is not distinctively positioned. It provides similar entertainment facilities and charges equal ticket prices as any other amusement parks in China.

5.3 Mall Environment

The retail patronage simulation ranks the relevant importance of environmental elements in determining malls' excitement levels. As the table 5-1 shows, architecture design, layout, music and inner decoration are all related to the excitement levels of malls and people's desire to stay. The international style architectural design has been questioned in chapter 4. This part will mainly focus on layout and inner decoration problems.

1 Anchor stores in the South China Mall are far away from each other with independent entrances opening towards main streets, which reduces the possibilities that customers will patron anchor stores





simultaneously. Other specialty stores cannot benefit from the population flow drawn by the anchor stores either.

2 The entertainment district and the shopping district are disconnected. Almost every building of the shopping district is introverted, surrounding its own skylighted atrium. Only limited parts of the building complex are open to the common entertainment space. Although the amusement park is supposed to be an important attraction to customers, the isolation between the amusement park and retail spaces discourages entertainment driven customers purchasing activities. On contrary, the layout of the Mall of America is simple – a rectangle with a theme park in the middle, an anchor department store at each of the four corners, and specialty stores along the sides. The arrangement allows shoppers to see storefronts on all three levels from the theme park, which establishes good visual connections between the shopping district and the amusement park²⁴.

3 The advertisement of the South China Mall highlights the slogan “shopping by boating”, a unique and romantic shopping image. Seven buildings of the mall are connected by a four-meter-wide artificial river with colorful boats. The stores are arranged along the river with a five-meter pathway in between, which means the trading process cannot be accomplished in boats. A good shopping path design should endow customers with great flexibility and freedom. However, due to the capacity of the river, the mall can only provide a limited number of boats, and thus customers have to share boats when shopping. Consumers on boats are not allowed to freely decide where and for how long to stop. Moreover, it



Figure 5-5: Sketch of the river in the South China Mall

is inconvenient for customers to board the boat with commodities.

4 It is important to keep customers well-informed about the layout and route by brochures, maps and signs in a 710,000-square-meter shopping mall. Surprisingly, no signs are available in the Mall, nor are any guides. During the winter visit, it took the author thirty minutes to find the mall's information center, which was located in the South China Apartment rental office far outside of the Mall area. On the contrary, brochures of the Mall of America are available either on the internet or in the mall. Guest service counters are located at each main entrance. Its internal design also makes the mall recognizable, because each corridor inside has a distinctive look shaped by different design, furniture, and lighting.

5.4 Involvement level

Involvement level is the “organism factor” in the retail patronage simulation model. Involvement is a concept originated from market psychology studies. Market researchers find that more psychologically involved customers are more “active processors of cognitive information”. They are able to “comprehend more information about a shopping situation and produce more elaborate meanings and inferences about it.”²⁵ They have higher excitement levels of shopping experiences, and thus more likely to become frequent shoppers at the mall.

The concept of involvement suggests one potential approach to drawing customers to the South China Mall. The Mall can launch market campaigns to attract the low-involvement customers in traditional senses. It can offer more stores which cater to men's interest, such as software, computers, and sports, since men are always the low-involvement group. As observed, the amusement park in the South China Mall does draw a large amount of visitors, most of whom are pure entertainment-hunters and seldom shop. It will be helpful to investigate the demands of these highly active entertainment-hunters and raise their shopping involvement levels.

5.5 Conclusion

The retail patronage simulation model suggests three approaches to saving the business of the South China Mall. First, although there are capital and tenant relationship constraints, the Mall still has to ensure that the leasing strategies target the right market segment and have unique draws to customers. Second, although the design and construction of the first phase of the shopping mall have been accomplished, some improvements can be made, such as providing guide service, distributing mall maps and improving the interface between the retail district and the entertainment district. Third, the Mall can launch market campaigns to attract the low-involvement-level customers by catering to their special demands. Moreover, in a market with fierce competition, shifting consumer preferences, and an abundance of retail choices, it is critical for retailers to continuously adjust their leasing strategies and physical environment to increase the overall excitement levels of customers in the mall.

Notes

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2. Cockerham, Paul W. (1995). "Homart Revives Virginia Mall with Renovation and Remarketing," *5ror£.9*, (October): 16-18.

3. Kirk L. Wakefiled and Julie Barker, "Excitement at the Mall: Determinates and Effects on Shopping Response", *Journal of Retailing*, Volume 74(4), pp. 515-539, (1998)

4. Ibid.

5. Involvement is a concept originated from market psychology studies. Market researchers find that involved customers are more "active processors of cognitive information". They are more likely to "comprehend more information about a shopping situation and should produce more elaborate meanings and inferences about it."

6. Tammy R. Kinley, Bharath M. Josiam, and Youn-Kyung Kim, "Why and where tourists shop: motivations of tourist-shoppers and their preferred shopping center attributes", *Journal of shopping center Research*.

7. Wakefiled and Barker, "Excitement at the Mall."

8. Tongluowan Company, a retail development company headquartered in Shenzhen, is the largest department store developer in China. It has launched aggressive

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9. Weirong Qiu, "The Department Store Tongluowan Failed in Dongguan," <http://www.kesum.cn/sq/zmgwzx/sztlw/200608/27507.html> (accessed on March 21st, 2007).
10. A.W. Spellmeyer, "Mall of America: confounding the skeptics", *Urban Land*, 1993
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14. Spellmeyer, "Mall of America: confounding the skeptics."
15. The SMR Group, Predevelopment Market Analysis, 87.
16. Calculated with population from the database of the Chinese National Bureau of Statistics. The Chinese National Bureau of Statistics, <http://www.stats.gov.cn/english/statisticaldata/yearlydata/>.
17. Kinley, Josiam, Kim, "Why and where tourists shop: motivations of tourist-shoppers and their preferred shopping center attributes."
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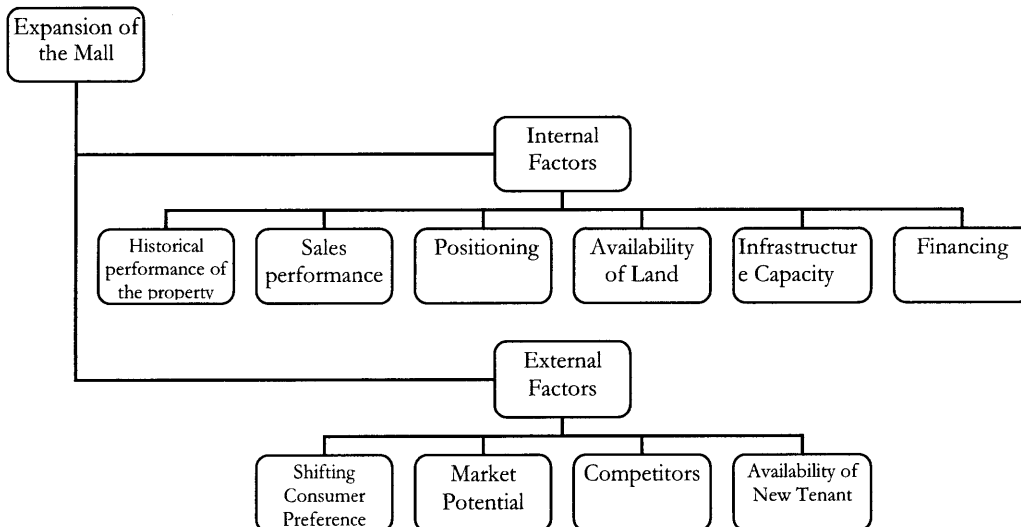
Chapter 6: The Phasing of Mall Development

The South China Mall is rapidly expanding despite its high empty rate and stagnant economic performance. The second phase, with a total area of 2,800,000 square meters, has started since the beginning of 2007, only one year from the opening of the first phase¹. The rapid expansion is directly associated with high risk. This chapter will firstly review shopping malls' expansion experiences in general, and then conduct a comparative study on the expansion process of three mega-malls: the South China Mall, the Mall of America, and West Edmonton Mall².

6.1 The expansion of shopping malls

Mall expansion is a serious process, because its timing and scale directly impact the mall's future profitability. Expansion projects should be justified through rigorous feasibility study, financial analysis, and environmental and community impact assessment. According to the *shopping center development handbook*, shopping mall expansion is determined by both "internal factors"-- the investment return, the mall's sales performance, the positioning and overall market strategy, the land availability, and the infrastructure capacity -- and "external factors" including market composition and evolution, market potential,

Figure 6-1:
Factors related to shopping mall expansion
Source: Michael D. Beyard and W. Paul O'Mara, *Shopping Center Development Handbook*, (Urban Land Institute, 1999), 89-110.



competition and availability of new tenants.³ Figure 6-1 shows all the factors related to shopping mall expansion. Normally it takes over ten years to observe the performance of existing shopping malls before future expansion.

Among all internal factors, sales performance -- the average sales per square foot -- is the primary one in evaluating expansion plans. If sales performance of a shopping mall outweighs its competitors, it can be expanded to fully capture its sales potential. Another important indicator is the "tenant profile"⁴, a retail category's floor area percentage and sales percentage in the entire shopping mall. According to the shopping center development handbook, a retail category's sales percentage in a shopping mall should match its sales profile in the whole trade area, or the tenant's area should be adjusted. Moreover, sufficient financing of the expansion project is very challenging. Loan lenders are extremely strict on the loans for expansion projects, and therefore they set up stringent requirements in the property's pre-lease percentile, loan to value ratio, and other performance related indicators. Additionally, infrastructure capacity, such as highway, sewage and parking, should also be assessed.

A comprehensive market analysis is required for an expansion project. It should cover all "external factors": demographic changes, economic growth, shifting consumer preferences, existing competition, and current tenant situation, etc. Analyses for expansion projects are more reliable compared to analyses for new projects, since most of the expansion analyses are based on existing shopping malls. For example, trade areas can be predefined in expansion market analyses through interviews with customers in existing malls, rather than relying on arbitrary estimation as initial analyses.

Above all, shopping mall expansion should be carefully planned to ensure the profitability of malls. The following part will compare development phases of three mega-malls, and reveal the fact that the accelerated development phase is one significant factor causing the current failure of the South China Mall.

6.2 Review of Development Phases of Three Malls

6.2.1 The South China Mall

The construction of the South China Mall started in April, 2002, and the first phase was accomplished at the end of year 2004. The second phase, with a total area of 2,800,000 square meters, has started since the beginning of 2007, only one year from the opening of the first phase. The first phase includes 310,000 square meters of commercial space and an amusement park. The second phase consists of a 120,000-square-meter food square and two hotels: a 70,000-square-metre four-star Nile Hotel and a five-star Shangri-La Hotel with an area of 60,000 square meters. In the middle of Phase One, April 1st, 2004, the South China Residential Department broke ground to the north of the mall, and was finished on August 1st, 2005. The total area of residential development is 2,600,000 square meters.⁵ Although officially divided into two phases, the whole development process is very rapid (figure 6-2).

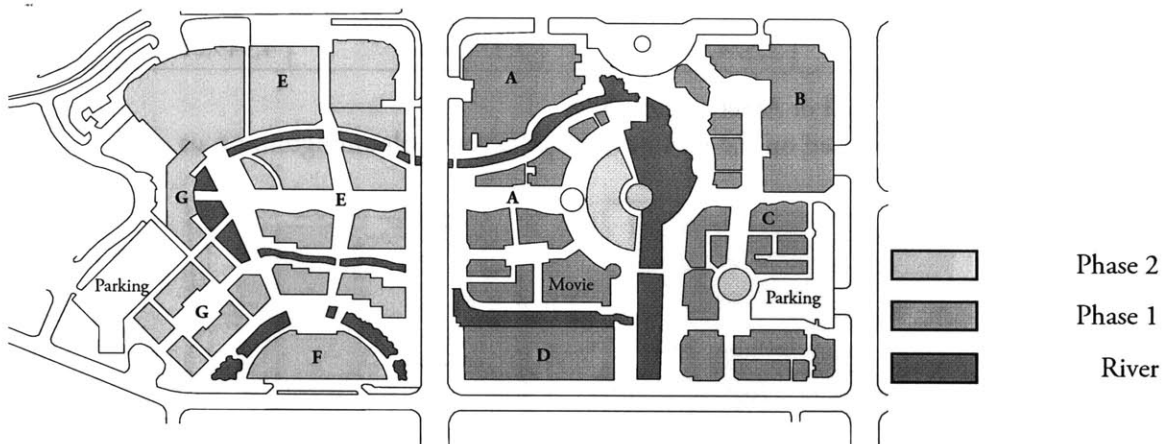


Figure 6-2: Phasing of the South China Mall
1:2000

- A: Anchor Stores
- B: Anchor Stores
- C: Specialty Stores
- D: Anchor Stores
- E: Hotel
- F: Foodcourt
- G: Hotel

Source: the author drew it based on the plan of the South China Mall and the predevelopment market analysis

6.2.2 The Mall of America

The first phase of the Mall of America was accomplished in 1992, and ever since then the second phase development has been under consideration. After 15 years of profitable operation, the Mall of America finally launched its new development at the beginning of 2007. The new phase will add an additional 5.6 square feet of mixed-use space to the north of the existing mall. It is hoped that annual visitors to the mall will be increased to 56 million because of the new development, a 40% increase on the current 40 million annual visitors. As Table 6-1 shows,

Phase I consists of retail spaces and a large amusement park, while Phase II attributes a significant proportion to residential and hotel development. The anchor tenants in Phase II include: a 330,329 square-foot IKEA chain store; a 300,000 square-foot Bass Pro Shops, one of the leading outdoor recreational retailers; a 6,000-seat performing art auditorium. ⁶

During the past 15 years, a rigorous feasibility study has been

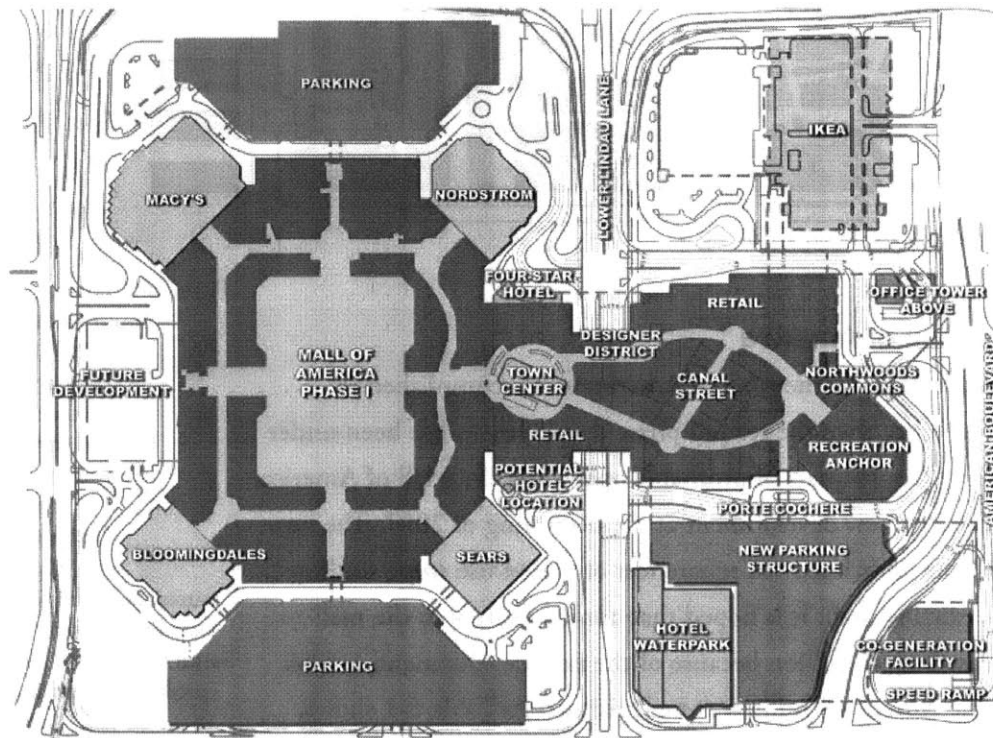
Source: Westwood Professional Services, INC., *Draft of Final Visitor & Parking Study*, 14-16, http://www.ci.bloomington.mn.us/cityhall/dept/commdev/planning/econdev/moa_ph2/moa_ph2.htm

Table 6-1: Phase 1 & Phase 2 Description

Description	MOA Phase I (1992)	MOA Phase II (2010)	Total Project Phases I&II
Gross Area	4,220,500	5,595,603	9,816,103
IKEA		330,329	330,329
Balance of Phase II Development		5,595,603	
Hotel, Office & Residential Area	0	2,140,400	2,140,400
Gross Retail & Showcase Area	4,220,500	3,455,203	7,675,703
Common Area	1,645,995	1,080,619	2,726,614
Utilization Percent (Gross to Leasable)	61%	68.72%	64.48%
Gross Leasable Area	2,574,505	2,374,584	4,949,089

Figure 6-3: Phasing of the Mall of America 1:1800

Source: The author drew it based on the plsn from <http://www.ci.bloomington.mn.us>



conducted to ensure the success of Phase II. The Mall of America has conducted consumer surveys every year to identify customers' travel distance, shifting preferences, and unmet requests. The records are valuable for the feasibility study of the expansion project. The Mall of America also works with the city of Bloomington on the adjustment of transportation system plans and parking arrangements.

6.2.3 West Edmonton Mall

West Edmonton Mall, the largest shopping mall in North America, is located in Edmonton, Alberta, Canada. Ever since the opening on September 15, 1981, the mall has expanded three times: 1983 (Phase II), 1985 (Phase III) and 1999 (Phase IV). Since 2002 another round of expansion has been planned.⁷ As shown by Table 6-3, the early

Table 6-2: the Expansion of West Edmonton Mall

Phase I – 1981	25 hectare site (62 acres) Mall size 106,000 sq. m. (1,140,560 sq. ft.) Three major department store anchors - Eaton's, Sears and The Bay 220 retail stores and services Estimated cost \$200 million
Phase II - 1983	32 hectare site in total (79 acres) Mall added 105,000 sq. m. (1,129,800 sq. ft.) Added 240 retail stores and services, including Zellers Introduction of recreation and entertainment facilities: Galaxyland Amusement Park and the Ice Palace skating rink Estimated cost \$250 million
Phase III - 1985	48 hectare site in total (119 acres) Major retail additions - The Brick and London Drugs Major entertainment additions - World Waterpark, Deep Sea Adventure, Dolphin Lagoon, Sea Life Caverns and Professor Wem's Adventure Golf Retail theme streets: Bourbon Street & Europa Boulevard Estimated cost of project is \$1.2 billion
Phase IV -1998	49 hectare site in total (121 acres) includes Chapters, Starbucks, HMV, Famous Players and IMAX 3-D Estimated cost of project is \$1.2 billion
Under Consideration	Additional 322,920 square feet of retail space an 8,000-seat facility for sports, trade shows and conventions a 12-story office building a 600-unit apartment building Parking.

Source: <http://www.westedmontonmall.com>

stage expansion was rapid, focusing on the retail space expansion and entertainment option increase; however, once the mall hit a certain scale in 1985, it took a long time to move to the next stage. Phase IV, which was 13 years after Phase III, was mainly about an entertainment option update, and the mall's conversion into a mix-use complex is still under consideration.

6.3 Comparative Study of the Phasing

6.3.1 Development Timeframe

The South China Mall's development takes much less time compared to the Mall of America and West Edmonton Mall. The Mall of America started Phase II construction 15 years after the opening of phase 1; after 1985, West Edmonton Mall has not launched on any major physical expansion. However the South China Mall embarked on phase II one year after the opening of Phase I, despite its current high vacancy rate and poor sales performance. The ill-considered great leap was the co-effect of government, developers and financial institutions.

Firstly, the city government of Dongguan has not instituted an effective and transparent planning process and approval mechanism of commercial real estate development. Local citizens are not involved in the decision process. From the municipal government perspective, the Mall can not only create many employment opportunities, generate considerable land rents, and simulate residential development; but also raise the city of Dongguan' overall profile. Therefore the municipal government encourages the construction and expansion of the mall with little restriction. At the end of 2004, the central government began to regulate the commercial development in the city of Dongguan; however, the regulation only restricted new development. The expansion of existing commercial spaces is supported to avoid sunken cost. Support from the government sustains the developer's ambition to create the world's largest shopping mall.

However, in North America the approval of shopping mall expansion project is much more rigorous. Phase II of the Mall of America has to be approved by the City of Bloomington's Planning Commission and Traffic and Transportation Advisory Commission. In

order to access the plans, the Advisory Commissions and City Council required numerous meetings, with local citizens involved. The effect of the expansion project on regional and local transportation systems, on parking and environment, on retail businesses and community was carefully evaluated. The city was also concerned about the potential employment opportunities and taxes brought by the mall expansion.⁸

Secondly, the developers of the South China Mall are deluded by the exaggerated market analysis, as we discussed in Chapter 3. The exaggerated market analysis can be caused by the developer's lack of expertise and experiences in the areas of feasibility studies and market survey, or their intention to magnify revenue streams to win government permission, construction loans and the tenant contracts. Although the initial operation of the mall has alarmed the developers' over-optimism, they have to rush into the next step to keep the confidence of investors and tenants⁹. The developers consider the phase II development as their signal of their strong confidence in the mall's future.

The primary reason of the expansion of the Mall of America and West Edmonton Mall is market demand. As the number one tourist destinations in the Midwest, Mall of America draws 40 million visitors annually, which is more than Disneyland. The average dollar amount spent per visit at MOA is 52 percent higher than the nationwide average¹⁰. These numbers indicate the existence of un-captured market demand. During over ten years' operation, both development companies have kept good records of annual consumer surveys, which will ensure the reliability of market analyses of expansion projects.

Third, shopping mall developers in China mainly rely on bank loans due to the lack of financing instruments, and the construction loans are relatively effortless to obtain compared to the situation in the United States. For historical reasons Chinese commercial banks have large amounts of bad debts -- the portion of receivables that can no longer be collected from accounts receivables or loans. To avoid future default, commercial banks become extremely cautious when underwriting a loan, so banks hold enormous amounts of surplus cash suffering from both inflation and exchange rate risk. Compared to other commercial activities, real estate projects, especially large projects supported by government, have satisfying returns and relatively lower risks because of the existence

of underlying properties. Once default occurs, commercial banks will be endowed with the ownership of properties. Thereby, the benefit of issuing loans to developers outweighs the opportunity cost of holding cash. Banks are eager to issue loans to developers, and tolerant of insufficient loan applications, such as the market analysis of the South China Mall. However, although many financial instruments are available for shopping mall development, financing for expansion projects is still difficult. Loan lenders in the United States are extremely stringent on construction loans issued to expand projects, and therefore they set up high standards in the property's pre-lease percentile, loan to value ratio, and other performance related indicators.

Another important factor that accelerates the development of the South China Mall is the increase of the interest rate. In 2005, a survey conducted by the Ministry of Commerce and People's Bank of China revealed a total vacant floor area of 28.78 million m² national wide. Therefore, the central bank started to tighten their lending policies to large shopping mall development projects. In April 2006, People's Bank of China raised its short term lending rate.¹¹ The development cost of the South China Mall suddenly rises because its 1 billion RMB construction loan bears a floating interest rate. Therefore, the developers have to accelerate the development. Once the phase II is completed, they can rent or sell the property to the Nile Hotel and the Shangri-La Hotel to repay the construction loan. The sooner the project is completed, the less the interest loss will be.

6.3.2 Development Sequences: Retail and Residential development

One common characteristic of the latest expansion of the Mall of America and West Edmonton Mall is the addition of hotels and residential towers. It indicates an emerging trend to convert suburban enclosed shopping malls to edge cities, a higher density mix-use area located in the suburban areas. Witold Rybczynski, a professor at the University of Pennsylvania, claims that shopping malls increasingly have become "urban entities".¹² Urbanized shopping malls are developers' responses to competitive retail markets by creating distinctive places with identity.

Unlike the Mall of America and West Edmonton Mall, which

started residential development after over 15 years operation, the Sanyuan Yinghui Development Company invested in a 2,600,000-square-meter residential project to the north of the South China Mall in an early stage of the mall development.¹³ The developer expects to capture potential housing price appreciation stimulated by the South China Mall. Normally revenue generation of the residential development is much faster than the shopping mall, which always takes over 10 years to achieve breakeven. Therefore, the developer planned to use the income from residential development to cross-subsidize the early operation of the Mall. Tongrui, the vice president of the development company, has stated that the 2,600,000-square-meter apartments would be sold out at an average price of 3,280 RMB per square foot, meaning that the total revenue would be over 0.7 billion, around 28% of the total development cost.¹⁴ Moreover, the developers were confident that the coming residents would become frequent customers to the Mall.

Given sufficient development financing, cross-subsidizing between residential development and mall development is feasible. However, constrained by the available capital, both the residential and shopping mall development turned out to be short of capital. Existing apartment buyers complained about the poor quality of the housing, insufficient infrastructure and the delay in project completion.¹⁵ San Yuan Yinghui Development Company gradually lost its creditability from their home buyers. In the mean time, the current stagnancy of the mall also reduces the attraction of the apartments. Therefore, apartment sales are much slower than predicted, and the cross-subsidizing goal is difficult to achieve. Moreover, due to the shortage of commercial service, public transit and necessary infrastructure, home buyers seldom move into new apartments immediately, and will not become frequent customers of the South China Mall.

6.3.3 Parking

The developers of the Mall of America understand the importance to provide accessible and adequate parking space for customers. Parking is an important consideration in its expansion. Ever since 2000, the Mall of America has conducted visitor analysis to help the forecasts of visitor numbers and visitor duration, two determinants of parking demand. The

usage of existing parking spaces has also been investigated. As the number of visitor increases from 38,000,000 to 53,000,000, and the average shopping duration increases from 2.36 hours to 3.41 hours, 8180 extra parking spaces¹⁶ will be provided in Phase II. In contrast, in a context with mounting private car ownership, the expansion of the South China Mall takes no consideration of corresponding change in parking demand. As analyzed in Chapter 2, the South China Mall will possibly face a shortage in parking space.

6.4 Conclusion

The cursory expansion of the South China Mall, which is contradictory to the experiences of the Mall of America and West Edmonton Mall, is not only caused by the over-optimism of developers, but also rooted in the unregulated and non-transparent commercial development approval mechanism and bank-loan issuance process. To avoid future failures of mega-mall projects, Chinese governments and banks should be more cautious about shopping mall development by carefully evaluating the risks and returns of projects. A public monitoring system of the government decision process should also be established. Shopping mall developers have to learn the expertise and experiences in consumer survey and market analysis to avoid decisions based on unreliable market analyses. Moreover, the developer should fully consider the growing parking demand, and spare land for parking in advance.

The co-development of residential projects and shopping mall projects, which is widely adopted in the mega-mall development in China, is a two-edged approach: it provides possibilities to cross-subsidize shopping malls' initial operation by the revenue generated by residential development in the near-term; however, without sufficient financing, neither residential nor shopping mall development will be better off. Therefore, developers should carefully evaluate their financial strength, and rationally allocate their capital to achieve synergies from different types of development.

Notes

1. Li, winter interview, 2007.

2. West Edmonton Mall, located in Edmonton, Alberta, Canada, is the largest shopping mall in North America. It was developed by the Triple Five Group. The first phase was opened on September 15, 1981. The mall has been expanded three times since its opening in 1981 including 1983 (Phase II), 1985 (Phase III) and 1999 (Phase IV). Currently, additional hotel and residential development are under plan.

3. Michael D. Beyard and W. Paul O'Mara, *Shopping Center Development Handbook*, (Urban Land Institute, 1999), 89-110.

4. Ibid.

5. Li, winter interview, 2007.

6. Westwood Professional Services, INC., *Draft of Final Visitor & Parking Study*, 14-16, http://www.ci.bloomington.mn.us/cityhall/dept/commdev/planning/econdev/moa_ph2/moa_ph2.htm (accessed June 2, 2007).

7. Wikipedia, West Edmonton Mall, http://en.wikipedia.org/wiki/West_Edmonton_Mall, (accessed March.24th, 2007)

8. Bloomington MN Government, "City Advisory Commissions review Mall of America Phase II plans," http://www.ci.bloomington.mn.us/cityhall/dept/commdev/planning/econdev/moa_ph2/moa_ph2.htm (accessed March.24th, 2007)

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13. Li, winter interview, 2007.

14. Xinhuanet, "The dilemma of three biggest shopping mall in China," June, 9th, 2006, http://news.xinhuanet.com/fortune/2005-06/09/content_3062952.htm, (accessed March.24th, 2007)

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16. Westwood Professional Services, INC., *Draft of Final Visitor & Parking Study*, 45-70,

Chapter 7: Dynamics behind the failure of the South China Mall

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way--in short, the period was so far like the present period..."

--- Charles Dickens, *"A Tale of Two Cities"*.¹

China has been on its path of transition from a centrally planned economy to a regulated market economy ever since 1979. With astonishing speed of changes, a transitional society is bound to have many problems. Failure of mega-malls is not an isolated phenomenon, but deeply rooted in the complicated social and economic context. Given their dimensions and aspirations, they become mirrors of a transitional China. This chapter will explore the dynamics involving developers, government and banks behind the failure of mega-malls.

To map the complex social system over time, we adopt the methodology of systems dynamics, an approach to dealing with internal feedback loops and time-delay relationships among components within a complex system.² Figure 7-1 is a conceptual map of the dynamic system explaining determinants of mega-malls' performance. Factors in the system are inter-related, and form internal feedback loops. For example, developers' over-optimism causes exaggerated sales-volume prediction, and thus encourages excessive retail space supply; however, over-supply of retail space will in turn impinge malls' sales performance and thus developers' optimism. Time-delay relationships within components are also mapped, such as sales performance and the issue of construction loans. Because of the delay, developers are still able to obtain loans for the project expansion, even if the existing project has poor performance.

As shown by figure 7-1, developers, governments and banks are three dominant forces in the entire system, given a certain level of

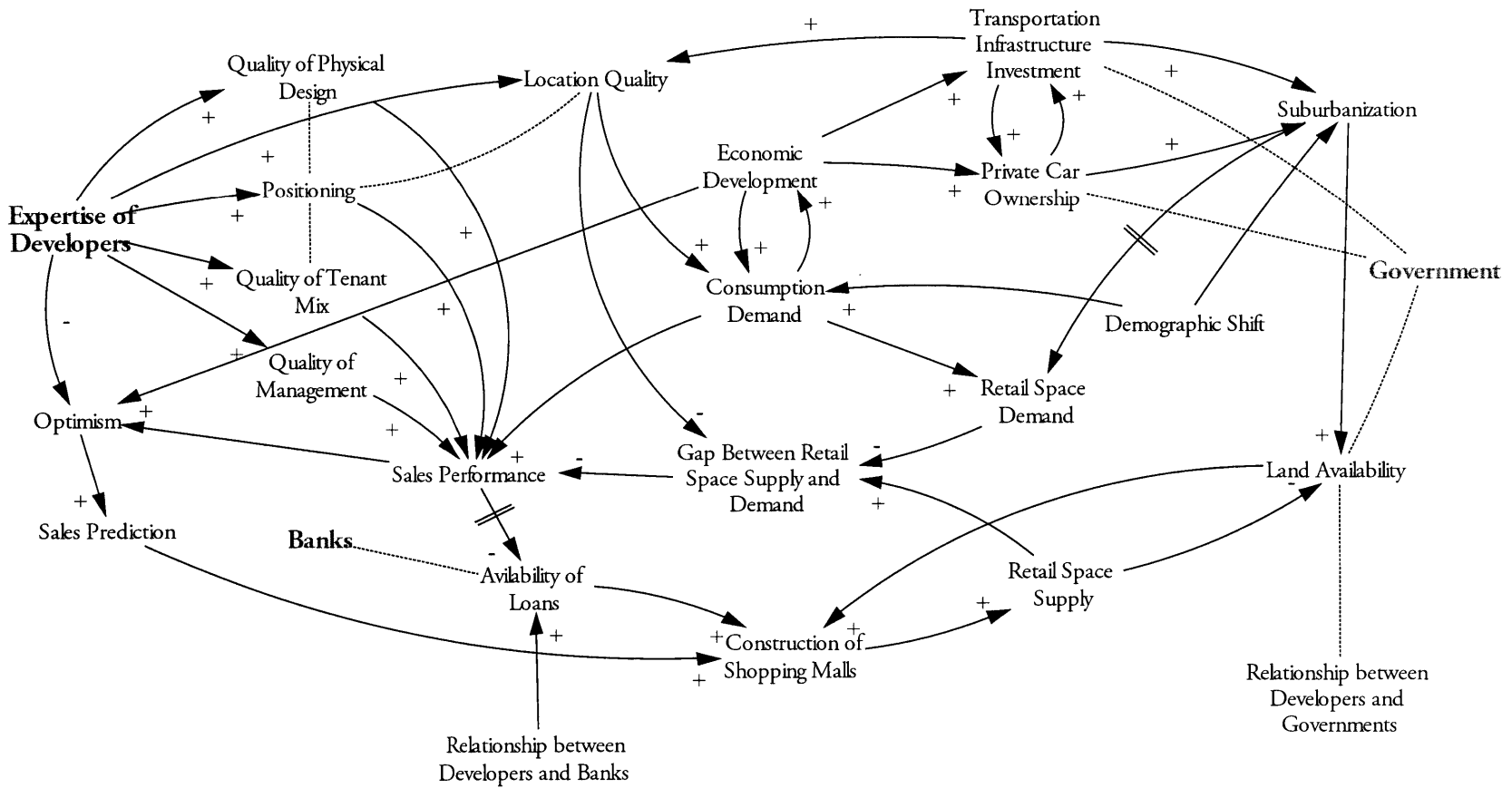


Figure 7-1: Dynamics of Shopping Mall Development

economic development and consumption demand. Governments control land availability; banks manage construction loans; and developers' expertise has direct impact on leasing, management, and market analysis of mega-malls.

This chapter will explain the rationale behind the behaviors of governments and banks in mega-mall development, and then discuss the consequences of a low-entry barrier real estate development industry in China. The next chapter will generate lessons for Chinese mega-mall development based on the conceptual map.

7.1 Government

The role of Chinese governments in land-use is problematic. Normally, land is privately owned, and land transactions are between land owners. Governments are only supervisors of land transaction processes. However, Chinese governments are both land owners and land use supervisors. On one hand, governments have dominant power in determining land use and zoning regulations; on the other hand, they obtain tremendous revenue from land transactions. No public monitoring is involved. Inevitably, governments have a large chance to use their power to maximize their own benefits.

From the municipal government perspective, though risky, mega-malls create tremendous employment opportunities, generate considerable land-use fees, simulate residential development and raise the city's overall profile. Close relationship between developers and governments is another important consideration when governments allocate land and make zoning regulations.

First, governments benefit from land-use fees generated in mega-mall projects. Before land reform in the early 1980s, all land use decisions, including appropriation, acquisition, transfer, and development, were made by the government, the sole owner of urban land. The land reform effectively privatized urban land use rights. Developers are guaranteed to use urban land for commercial development for 50 to 70 years, once they pay governments a pre-established land price. The land price includes two parts, the site development fee – the capital investment to make the land qualified for commercial development -- and the land-use fee, a monetary

measurement of urban land use rights for 50 to 70 years.³ Although land is leased at a high price after the land reform, the land acquisition cost that governments pay rural farmers and relocated urban residents is below 10% of the leasing price. Therefore, governments tend to accelerate land acquisition and leasing process to capture the considerable revenue stream, and land-use fees become the most significant source of the fiscal income of local governments. From 2002 to 2004, land-use fees amounted to 910 billion RMB countrywide, and they contributed over a half fiscal income in some provinces⁴. Moreover, the development of shopping malls stimulates residential development around and therefore drives the price of surrounding land even higher.

Besides enormous revenue from land leasing, mega-malls are considered by governments as an effective approach to raising the city's profile. In the South China Mall's case, Dongguan—the city where the Mall is located—and Shenzhen—another city one hour away—have been in surreptitious competition for years. Dating back to the early 1980s, Shenzhen was designed to be an international city merged with the global economy, while Dongguan was assigned to be the world manufacturing factory. People in Dong Guan have taken chances to exert all kinds of advantages endowed by the central government, and build a big modern city based on manufacturing. Twenty years later, both cities have achieved economic success but different city images. Shenzhen is a modern city in general senses, while Dongguan becomes a montage of factories and industrial parks. Rich with the success of its industrialization, Dongguan is no longer willing to stand in the shadow of Shenzhen. The city government has launched a progressive “city beautification movement” to raise the city's profile.⁵ It is ambitiously building up all modern symbols: broad streets, skyscrapers, parks, and shopping malls. The South China Mall, as “the most advanced form of commercial real estate”⁶ and the largest shopping mall in the world, are enthusiastically embraced by the Dongguan government, since it “outweighs all shopping malls in Shenzhen”. Therefore, the government of Dongguan was willing to offer the land at a lower price. (from the newspaper)

Moreover, many developers can obtain land at a preferential price because of their personal relationship with government officers. Developers also bribe government officers to obtain lower land prices

and looser zoning regulations. Due to the below market-rate land price, developers can initiate risky projects without many financial concerns.

7.2 Banks

Chinese commercial banks have issued large amounts of loans to risky projects such as the South China Mall without convincing feasibility studies. The reason can be explained by understanding the Chinese banking system. For historical reasons Chinese commercial banks have accumulated astronomical bad debts – accounts receivables that can no longer be collected. To avoid future default, commercial banks become extremely cautious when underwrite a loan, so banks hold enormous amount of surplus cash associated with both inflation and exchange-rate risk.

To fluidize held assets, banks are actively seeking for reliable capital investment opportunities. Compared to other projects, real estate development projects have satisfying returns and relatively lower risks because of the existence of underlying properties. Once a loan is default, commercial banks will be endowed with the ownership of the property. Overall, the benefit of issuing loans to developers outweighs the opportunity cost of holding cash. Banks would like to issue loans to developers, even if underlying properties are highly risky, such as the South China Mall.

7.3 Developers

Developers play a significant role in mega-mall development and management. As shown by figure 7-1, developers' expertise determines the quality of management tenant mix, mall design, financing and site choice; and ensures the reliability of market analysis. However, Chinese real estate development industry has not been strictly regulated. Developers are not required to have licenses. Anyone with a down payment for land can get loans from banks and start a development without knowing anything about the business of construction. Therefore, most Chinese developers are not well equipped to manage complex mega-mall development.

Developers may lack of incentives to properly develop and manage

properties, because through strong ties to governments and banks, they obtain lands at below market-rate prices and loans at favorable interest rates. When projects fail, there is a high chance that developers still make money by selling existing land-use rights to a third party. Moreover, the favorable offers from banks and governments significantly reduce risk of development and thus encourage developers' unrealistic ambitions, such as the battle for the title: the world largest shopping mall.

7.4 Conclusion

Recent news revealed the fact that the Sanyuan&Yinghui Group was going to sell partial ownership to the Founder Group⁷ at a price of 2 billion RMB. It is a normal phenomenon of failed development projects in China.⁸ The foreclosure process is actually a land appreciation process, because the previous below market-price land is reevaluated. Therefore, at the worst case, developers can breakeven, banks can get the loan back and governments still keep the land-use fees. The only victim is poor farmers and relocated urban residents who are underpaid in the original land acquisition process. If the property happens to perform well, government, developers and banks will all benefit. Therefore, they become a trinity sharing common interests in mega-mall development.

Notes

1. Charles Dickens, *A Tale of Two Cities*, (Signet Classics; Rei edition, 1997), 10.
2. John Sterman, *Business Dynamics: Systems Thinking and Modeling for a Complex World*, (McGraw-Hill/Irwin,2000).
3. Eju.com, "The definition of land-use fees," August 3rd, 2003, http://www.021fang.com/sub_paper/105.htm (assessed at May 20th, 2007)
4. The No.1 Real Estate Net. "The black hole of land-use fees," August 5th, 2004, <http://www.dyfang.com/News/2004/08/05/404315.htm> (assessed at May 20th, 2007)
5. Rem Koolhaas and others, *Great Leap Forward*, (Harvard Design School, 2002), 325.
6. The South China Mall, "Legend of the Mall", <http://www.southchinamall.com.cn/news/origin.jsp?catid=16,23> (assessed at April.5th, 2007)
7. The Founder Group was founded in 1986 with the main investment from Peking University. It is a well-known IT enterprise in China. Now it has expanded core business to healthcare and pharmaceuticals.
8. Bing Liang, "The South China Mall is going to be acquired by the Founder Group at 2 billion," Real Estate News, <http://house.sohu.com/news/2006-10-27/250246.html> (accessed March 22nd, 2007)

Chapter 8: Lessons for Chinese Mega-mall Development

The Former chapters have reviewed five factors contributing to the failure of the South China Mall: 1) a questionable location choice; 2) overly optimistic market analysis; 3) unrealistic positioning of the mall as an “international style retail and entertainment complex;”¹ 4) ill-advised leasing strategies and physical design, which fails to distinguish the South China Mall from other malls in the trade area; and 5) rapid expansion of the Mall disregarding financial constraints and current unfavorable market performance. Given its dimensions and magnitude, the South China Mall is a mirror of contemporary mega-mall development in China. This chapter will incorporate the factors leading to the failure of the South China Mall into the framework illustrated by Figure 7-1, and provide corresponding solutions. Finally, this chapter will generate lessons for Chinese Mega-mall Development by referring to the South China Mall’s case and the system dynamics framework.

8.1 The failure of the South China Mall and the system dynamics framework

8.1.1 Location choice

According to Figure 7-1, a wise location choice is determined by developers’ expertise, a reliable estimation of existing retail demand and supply, well-developed transportation infrastructure and service. The location choice of the South China Mall is against all of them.

Because of the lack of developers’ expertise, the intense retail competition in the Pearl River Delta is underestimated, and the special demographic characteristic of Dongguan, a city with almost 70% population² as migrant labor force, is neglected. Therefore, the real demand and supply of retail space in the Pearl River Delta is distorted. The developers are also overly optimistic in the accessibility of the mall regardless of high transportation costs, poor transportation services and inadequate parking space.

8.1.2 Market analysis

In the market analysis for the Mall, the sales volume prediction is overestimated by at least 25%, as proved in Chapter 3. The unrealistic number was used by the developers to obtain the land and construction loans. It directly supported the current gigantic volume and future rapid expansion. As shown in Figure 7-1, as the gap between the supply and demand of retail space widens, the sales performance will be worse. The developers once had the confidence that their financial strength would support the first 12 years of operation based on the original exaggerated sales volume. Since the actual breakeven time may be even longer, the developers are potentially facing more financial pressure, which will constraint the mall's leasing and management strategies, and in turn worsen the long-term sales performance.

8.1.3 Positioning, design and leasing strategies

Figure 7-1 also emphasizes factors contributing to a specific mall's competitiveness: tenant mix, physical design, management and positioning. These four factors are interrelated: the positioning of the mall has significant influence on the physical design, tenant mix and management. The developers of the Mall positioned the Mall as the world's most advanced commercial property form, and pursued a unique design concept and a specific tenant mix targeting middle to income class.

Inspired by the Mall of America, they built an entertainment and retail complex without investigating the actual benefit of large scale entertainment facility to shopping malls' overall profitability. The Mall becomes a world park formed by replicates of classic architecture masterpieces from seven international cities, nations and regions. The neglecting of local identity and traditional customs impinges the Mall's uniqueness and business value.

The leasing strategies targeting the middle to high income group are also problematic. First, almost all malls in the Pearl River Delta target the same market segment, and most of them are located in dense urban centers, relatively favorable locations compared to the South China Mall. Second, although Dongguan is a city with the highest GDP in China, 70% of the total population is migrant workers concentrating in labor intensive manufacturing sectors, and most of the workers have long

working hours and low income. Moreover, the middle to high income group in Dongguan, the class the South China Mall is targeting, are used to shopping in Hong Kong or overseas, which is considered as a symbol of their social status and wealth. For above reasons, the competitiveness of the Mall should be questioned.

8.1.4 Expansion

Figure 7-1 also illustrates factors determining the expansion of the Mall: sales performance, optimism of developers, gap between the supply and demand of retail space, and the availability of loans and finance. The Mall expansion is mainly caused by the over-optimism of the developers, and the unregulated and non-transparent commercial development approval mechanism and bank-loan issuance. It is also utilized as a sign of the developers' confidence level when customers are pessimistic about the Mall's future. The rapid expansion of the Mall takes no consideration of sales performance and the current supply and demand of retail space. The Mall also fails to provide adequate parking space for the future.

In the expansion of the Mall, residential development and shopping mall construction are conducted simultaneously. It is a two-edged approach: it provides possibilities to cross-subsidize shopping malls' initial operation by the revenue generated by residential development in the near-term; however, without sufficient financing, neither residential nor shopping mall development will be better off.

8.2 Proposals for the South China Mall

1 The South China Mall should adapt itself to the gradual evolution of the immigrant society in the city of Dongguan. The consumption capacity of the migrant workers will undoubtedly grow over time. Local migrant workers will eventually become the most important consumer base for the Mall, since the Mall lacks comparative advantages in the whole Pearl River Delta in terms of location. Therefore, the Mall should take the initial step to occupy the large market of migrant workers.

Currently, the consumption ability of migrant workers is limited, but it is a good timing for the developers to work on the word-of-mouth value of the Mall, which can be transferred into future business revenues.

For example, migrant workers are not formally registered residents of the city, so they do not have legitimate accesses to educational opportunities and public amenities. The developers can utilize current empty space to accommodate public activities of migrant workers, such as technical schools, libraries, theaters and sports fields. These public uses will be a significant draw to migrant workers, and are able to be transformed to for-profit uses if needed. The developers can also adjust the tenant mix of the Mall according to the shifting demands of migrant workers.

2 The developers should work with the local government to improve transportation services as soon as possible, such as providing pedestrian links between the inter-city bus station and the Mall and setting up intra-city bus stops. The expansion plan of the Mall should consider the potential parking demand of the Mall, and save land in advance.

3 The developers should budget more money on the residential development around the South China Mall, rather than invest limited amount of capital into both shopping mall expansion and residential apartment construction. A well-developed residential district will bring the mall considerable amount of local customers, and generate sales revenue to cross-subsidize the Mall.

4 The developers should slow down the rapid expansion, and reinvestigate the planning and design of the Mall. One significant flaw of the Mall is the disconnection between the entertainment district and the shopping district, which discourages purchasing activities of entertainment hunters. To enhance the connection, the facades orienting the public space can be partially changed into transparent materials to provide visual links. Some part of the buildings can also be reconstructed into colonnades.

Another, anchor stores in the South China Mall are far away from each other with independent entrances opening towards main streets, which reduces the possibilities that customers will patron anchor stores simultaneously. To ensure more co-patronage of commercial spaces, the developers can restrict the walking paths of shoppers by limiting the number and location of entrances and exits

In addition, “shopping by boating”³, an inconvenient shopping approach promoted by the developers, should be recessed. It should be repositioned as a secondary shopping approach. Some vendors’ stands can be designed along the river to enable instant purchasing in boats.

5 Currently no signs are available in the Mall, nor are any guides. It is important to keep customers well-informed about the layout and routes by brochures, maps and signs in a 600,000-square-meter shopping mall.

6 Visitor analysis is a comprehensive study of the shoppers in a mall, including the number of visitors, average shopping duration, travel modes and distance, consumption structure, average spending, etc. It is an important reference for the expansion and rejuvenation of a mall. Retailers can also adjust their commodities according to visitor analysis. The Mall of America conducts visitor analysis record every year.

It is extremely vital for the developers of the South China Mall to keep analyzing visitors, because mega-mall is still at the experimental stage in China, and western experiences can not be directly translated to local context. Only by keep tracking visitors of the Mall, can the developers have a better understanding of the status quo and the trend of the market.

8.3 Lessons for Chinese mega-mall development

The case study of the South China Mall reveals the fact that the failure of mega-malls is caused by complicated factors with internal feedback loops and time-delay relationships. It is also deeply rooted in the complex economic and social context of a transitional society. Therefore, we have to view the mega-mall development as a dynamic system, as illustrated in Figure 7-1.

Table 8-1: factor classification

The supply and demand of retail space	Competitive Advantage	External Factors
Location; Consumption Demand; Existing supply and demand of retail space	Tenant Mix; Physical Design; Management.	Governments; Banks; Relationships ..

In order to further understand the system, we classify all the components within the dynamic system represented by Figure 7-1 into three categories: 1) factors determining overall consumption capacity of a region; 2) factors determining a specific mall's competitiveness; 3) external restrictive factors, such as banks and governments.

A shopping mall can not create new consumption demand, but attract unmet consumption demand in the trade area. The overall consumption capacity of a region determines a mall's maximum sales potential. The annual GDP growth rate at 12% and rapid urbanization process in China inevitably spawns optimism, so current mega-mall projects generally have high expectations of consumption demand. It leads to the mismatch of the location, size and composition of shopping malls and the needs of trade areas, and eventually failure of mega-mall projects. Therefore, a predevelopment market analysis should still be conducted rigorously to ensure trade areas can absorb the increased retail space. It will also help developers have a precise image of the status quo and future trends of the local market.

Factors in the column "competitive advantage" are dominated by developers' expertise. As mentioned in the thesis, real estate development industry in China has low entry barriers. As long as people have initial capital for land acquisition, they can get construction loans from the banks to finish their development projects. Chinese developers have interpreted western shopping center development and management rules in their own ways, some of which have been misunderstood or implemented regardless of the Chinese local situation. To avoid failure of future mega-mall projects, it is important to establish rigorous guidelines for design, leasing, financing, and management of Chinese mega-malls by referring to US experiences and the Chinese context. Shopping mall developers should be educated with these guidelines.

The third column lists the external restrictive factors of shopping mall development. Governments and banks can become important monitors of mall development because of their control of land and capital. However, in an unregulated and non-transparent environment, Chinese banks, developers and governments become a trinity sharing common interests in mega-mall development. To avoid future failures of mega-mall projects, Chinese governments and banks should be more cautious on shopping mall development by carefully evaluating the risks and returns of projects. A public monitoring system of the government decision process should also be established. This regulation process is related to the ongoing national political reform and financial system reform, and therefore will take a long time.

Although mega-malls are now suffering from high vacancy rates and therefore experiencing enormous economic losses, we still believe they have the chance to succeed in the future if properly planned. It is hoped that lessons from the South China Mall can be applied to other Chinese mega-malls currently experiencing economic stagnancy. In order to establish rigorous guidelines for design, leasing, financing, and management of Chinese mega-malls, similar research should be conducted in other mega-malls in China.

Notes

1. Li, Winter Interview, 2007.
2. Calculated with population from the database of the Chinese National Bureau of Statistics. The Chinese National Bureau of Statistics, <http://www.stats.gov.cn/english/statisticaldata/yearlydata/>.
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