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## PROPERTY REPORT

# Property Investors Bet on Emerging-Market Mall Culture

'Destination' shopping centers with entertainment, green space and dining are growing

By Theresa Agovino

Retail development in the U.S. has slowed to a crawl as consumers switch to online shopping. But in emerging markets it is a different story.

Development pipelines are packed with shopping centers, outlet malls and other retail properties in such countries as India, China, Malaysia, Indonesia and Colombia.

Indeed, retail is one of the most attractive property types in emerging markets for international investors who are showing more interest in these markets now that growth rates are increasing and many governments are implementing structural reforms.

For example, private-equity giant KKR late last year joined Hong Kong-listed Sino-Ocean Group Holding Ltd. to make a \$190 million investment in Beijing Capital Juda Ltd., a leading Chinese retail outlet developer. Juda has four existing outlet centers and another seven in the pipeline, according to Ralph Rosenberg, head of KKR real estate.

In Indonesia's capital Jakarta, three malls have opened this year while another trio are set to do so by December's end, according to real estate services firm Cushman & Wakefield.

Meanwhile, with online retail also gathering steam in emerging markets, some shopping center developers are adopting strategies that are becoming more popular in the U.S. and Europe that combine bricks and clicks and focus shopping centers more on experiences, such as dining out, that consumers can't do on the internet.

"We're focusing on retail that has leapfrogged [traditional mall] development," said Alfonso Munk, managing director of PGIM Real Estate, which manages \$4 billion in emerging-market real estate.

Part of the reason retail development is hotter in emerging markets than the U.S. is simply because U.S. is over-stored, as experts in the retail business put it. Experts say there is about 25 square feet of retail space per capita in the U.S.

Retail space is tiny in emerging markets by comparison. There is roughly 1 to 2 square feet of retail space per capita in Mexico and India, experts say.

Retail experts say that this existing supply isn't enough to serve the growing consumer classes in many of these countries. "As emerging middle classes continue to gain household wealth, the natural extension of that is they will be interested in consumption," Mr. Rosenberg said.

Until recently, Blackstone Group LP focused most of its investing in India in the office market. But lately the giant private-equity firm has put its sights on shopping centers in that country, partly because demand has picked up from major international retailers like IKEA and Uniqlo, according to people familiar with the matter.

In Colombia, mall development is enveloping the capital of Bogotá and spreading to other parts of the country of about 49.3 million people—the second largest population in South America after Brazil.

In 2014, there were only 4.9 million square meters of retail shopping centers in the country. Last year, two malls were delivered that were more than 700,000 square meters each, according to CBRE. About 22 malls are expected to be delivered this year while a similar amount are slated to be delivered over the next two years.

Avenida Capital LLC, a private-equity firm with offices in New York and Colombia, is building a mall in Bogotá complete with a petting zoo, go-cart course and rides along with traditional stores. It will cost about \$170 million and open by the end of next year, according to Michael Teich, an Avenida founder and managing director.

"There aren't a lot of places in Colombia for families to go and spend time," he said. "We are making a bet that this will be a destination."

Avenida also is building a mixed-use project in Bogotá and scouting for other opportunities. Colombia is an especially attractive market because it has numerous cities with more than one million people, setting it apart from other South American countries where the only major population center is the capital.

CBRE Global Investors, one of the world's largest real estate asset managers with \$98.9 billion under management, also has been looking for so-called "destination" retail in

markets with high growth economies. For example, earlier this year CBRE bought Letnany Shopping Centre in Prague. Retailers include H&M and Zara. A skydiving area and surf arena are among the entertainment attractions.

The two-year-old EmQuartier mall in Bangkok boasts a 40-meter-tall man-made waterfall and a 3,000-square-meter rooftop garden—treats in a city short on green space. And in Vietnam's Ho Chi Minh City, the SC Vivocity mall has a rooftop park and playground, bowling alley and movie theater.

"E-commerce still has a way to go and people will still want to go to the mall to experience things," said Desmond Sim, head of research for Singapore and southeast Asia for CBRE. "There is still a mall culture."

To be sure, these investors aren't ignoring the potential threat of e-commerce. Logistics real estate is one of the most attractive property types in emerging markets because of growing demand from online retailers.

But many emerging-market countries lack the necessary infrastructure necessary for e-commerce to thrive, such as efficient highways. Also, swaths of the populations don't even have credit cards, so e-commerce isn't an option for many.

"You might buy online if it is cheaper, but if it is not why do you want to wait 14 days to have it delivered?" asked Mr. Sim. "That is the push and pull for most of the consumers in emerging countries" in southeast Asia, he said.

To play it safe, some mall developers and their retailer tenants are making it easy for consumers to pick up purchases made online in the stores. Another option offered is using the store as a showroom so shoppers can see the items and then have them delivered.

Jean-Baptiste Wettling, director of JLL Colombia, thinks that it will take some time before Colombia is ensconced in an e-commerce culture. The country is very mountainous, and roads are still only beginning to be constructed.

"The current administration is building highways but roads are expensive to build," he said. "It is a mid-to-long term project."

—Peter Grant contributed to this article.