

Retail Developers Rush to Meet Needs of Rising Population

By Denise Kalette,

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NEW YORK — The retail real estate industry faces a major challenge — meeting the needs of the burgeoning U.S. population, which is expected to grow from about 301 million today to an estimated 420 million by 2050, René Tremblay, chairman of the International Council of Shopping Centers said Monday. And the problem is not limited to the United States. "Global retail development is now in overdrive," as public and private groups around the world try to meet the needs of new consumers, Tremblay said at the ICSC 2007 National Conference and Deal Making in New York, which has drawn nearly 10,000 participants. In assessing the state of the industry, Tremblay said abundant capital is fueling a construction boom of new shopping venues and redevelopments.

"Today, world-class shopping centers can be found on virtually every continent," he says. In addition to the roughly 50,000 shopping centers in the U.S., state-of-the-art projects have sprung up in the United Arab Emirates and numerous other countries. With populations greater than 1 billion and economic growth rates pushing 10% per year, developers in China and India are struggling to keep pace. Both nations can count on steady market growth, since more than 20% of China's population is under age 16, and 32% of India's population is younger than 16, Tremblay says. "In these countries Western-style mall development is now occurring at a frenetic pace." China, for one, is an economic powerhouse with \$10 trillion in GDP in 2006, and it has become the third-largest economy in the world, Tremblay says.

In both China and India, youthful populations present a particularly attractive market to retailers and shopping center developers since the trend among the younger generation is to spend more of their rising incomes than did their more financially conservative parents. However, investing in these countries carries a higher risk than in more mature markets like Western Europe, because of the possibility of speculative projects, and the shortage of in-depth skills relating to commercial development, leasing, market research and management. But not all countries are experiencing the kind of population growth that spurs new projects. Although many parts of Europe show strong economic growth, declining populations are expected to restrain sales growth potential. For instance, Poland and the Czech Republic boast GDP above 5% per year, but both have shrinking populations, says Tremblay, and that makes them less attractive locales for potential new retail venues.

Demographic change offers opportunity

In the U.S. steady growth is just one aspect of the population trend. "What is particularly striking is not just the absolute population growth numbers but the ethnic pattern of growth," says Tremblay. The expected increase of minority populations from about 86.4 million in 2000 to an estimated 210 million by 2050 offers retailers an opportunity to expand into new niches and will give shopping center owners a more diverse tenant lineup, Tremblay says.

Another trend expected to influence the industry is the continued rapid expansion of such retail giants as Wal-Mart, as they successfully compete with regional shopping centers and strip malls. Since 2000, Wal-Mart has increased its retail footprint in the U.S. by 72%, from 33 million sq. meters to 57 million sq. meters, says Tremblay. The space Wal-Mart now occupies is equivalent to more than half of all the shopping center space in the European Union, he adds.

Government planners are fighting back with ordinances to curb the number of big boxes moving into their communities, and that struggle to contain big boxes will continue as an industry issue. Pressure for more intensive land use and better public transport to retail developments is leading to more live-work-play projects, Tremblay says. In response, more and more shopping center properties will share development space with mixed uses including office and residential units. And as they strive for creative solutions for the evolving market, developers will offer hybrid formats, such as indoor/outdoor shopping centers.