Retail format – shophouses and shopping malls

- **Increasing** urbanisation coupled with rising demand has resulted in more organised and facility-packed retail estates
- **Modern** shopping malls require more complex lease planning than the shophouse format

by
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The early retail format of shophouses during and post World War II includes basic and luxury merchandise like fashion, household items, groceries and pharmaceuticals to sin businesses like gambling and opium houses. In these set-ups, the upper floors are usually used as accommodation for workers or the owner's families, hence, the name "shophouses".

Since its inception, the shophouse has followed the general rules of real estate, where prices and rent get lower as the space gets higher and the alfresco "kaki-lima" or five-foot way is a vital alley for all weather-proofed pedestrians.

This element has evolved into alfresco dining or high traffic corridors such as The Connection at Pavilion Kuala Lumpur or The Walk at The Curve. Although people don't really live in the shophouses as much as before, they are still being built and are relevant as a big part of the community. Shophouses are still well-sought-after investment assets and therefore, will usually be part of a development plan.

Increasing urbanisation coupled with rising demand for a larger merchandise mix over the years have resulted in more organised and facility-packed retail estate, and the shopping mall format is the way to move forward to capitalise on such socio-economic demands.

Shophouses and malls are very relevant to consumers in their own ways. Now let us look from the perspectives of retailers as to which format they prefer.

Large-format retailers

They are also called anchor tenants and are usually larger-scale retailers such as supermarkets and departmental stores which operate in very large spaces in the tens of thousands of square feet. Their business model usually does not allow them to have the luxury to pay high rents or estate expenses.

To play the role of "anchor" in a vicinity, they are self-sustained, self-branded and very destinational with little reliance on surrounding retail factors. As such, they can be slightly away from prime locations and even have themselves located in dedicated stand-alone buildings.

For example, Jaya Grocer in Bukit Jelutong or Decathlon in Sungai Buloh are not established within super prime estates, but these locations and buildings serve their purpose well. Much larger formats of these types of retailers could be hypermarkets that could go by kilometre of estate length, and it is very common they are pioneers present in newly developed areas.

In the context of having these anchor tenants in a mall, it is a slightly different story all together. As these anchor tenants do not need certain facilities, their rent in malls could at times be more affordable compared to having themselves in stand-alone estates.

Modern shopping malls require much more complex lease planning, positioning and placement of anchor tenants along with specialty anchors and smaller size retailers. Together, they form a very unique blend of retail format. Some shopping mall formats can even afford to house a few anchor tenants of the same trade in one building, such as Bangkok's Central World Plaza having both Isetan and Zen departmental stores and Mid Valley Megamall Kuala Lumpur having two departmental stores, Metrojaya and Aeon, together with two supermarkets, Aeon Big (formerly Carrefour) and Aeon Supermarket.

Some shopping mall formats like Mid Valley Mega Mall can afford to house several anchor tenants

Specialty stores

Sometimes we refer to them as mini anchors, and they are generally hardware stores such as Ace Hardware, larger retail chain brands such as Padini and Uniqlo, and furniture and consumer electronics like Harvey Norman or Sen Q.

As the business volume of these retail formats does not warrant the luxury of being stand-alone in a vicinity, they usually prefer to be present among merchandisers of different mix.

Each of these have their own brand positioning, hence they can be "choosy" when it comes to opening branches. They usually wish to be associated with developments, assets and retail formats which they can co-brand and associate with and would have a certain level of expectation of service levels to be provided by the estate owners.

General retailers

When we say "general", it doesn't imply they are inferior in any way, but it is just because of the way retail space planners refer to them generically. They can range from exclusive brands such as timepieces or costume jewellery to mom-and-pop operated tailor or gift shops. This is the category of retail format where we have the largest numbers of new players (and also fatalities).

General retail usually has smaller formats from 500 sq ft bubble tea stores, 1,500 sq ft convenience stores, 3,000 sq ft fashion space and so forth; therefore, they are fit to be in both shophouses and shopping malls. However, such flexibility results in them having to deal with multiple complicated set-up criteria, depending on the estate format.

Operating a business in a shopping mall is simpler and more secure in many ways. Firstly, the economies of scale in a mall provides every stakeholder enormous business opportunities. A typical mega mall in the Klang Valley gets 30-40 million footfalls a year, patronising up to 800 shops in a single premises. So given a well-managed mall, such synergy generates priceless eyeballs and retail value.

Besides, in a mall, retailers partner with larger corporations with more comprehensive tenancy management, lease planning, marketing promotion and facility management compared to being in a commercial area by themselves.

But for new players operating their first business in a mall, it is a double-edged sword. On one hand, you are leveraging on the benefits of operating your business within a controlled environment, and equally you will be subjected to more rigid legal and operation requirements, such as costs and restrictions in renovation and business hours.

On the contrary, renting space in shophouses is like doing a business in a cowboy town, every shop has its individual owner and there will be no one particular "mall manager" governing the business rules or branding initiatives for the whole area. However, tenancies are less complex and usually operation hours are very much relaxed, subject to the local council's restrictions, depending on the business and the timing of the best crowd.

Nevertheless, there are other potential downsides of doing business in shophouses like you cannot choose your neighbours or have little control over security and safety outside your premises.

Retailers who choose to lease at such estates are usually convinced of the area's business potential, largely based on their survey, observations and other data that they can obtain.

General retailers very seldom secure future leases in shophouse estates which are still under development. Nevertheless, in the Klang valley, there are many such successful shophouse areas that are generating good footfalls and good turnover, such as USJ Taipan, Sri Petaling and Dataran Sunway.

In the 2000s, there were many attempts to build hybrid retail estate formats that look like shophouses but operate like shopping malls – some called it "shoplex" where some were successful whilst others were not.

For the developers, retailers and purchasers, the golden rule for the next decade is more than just location, location, location: before you buy, rent, build, the new estate wisdom is please think, think, think. FocusM

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