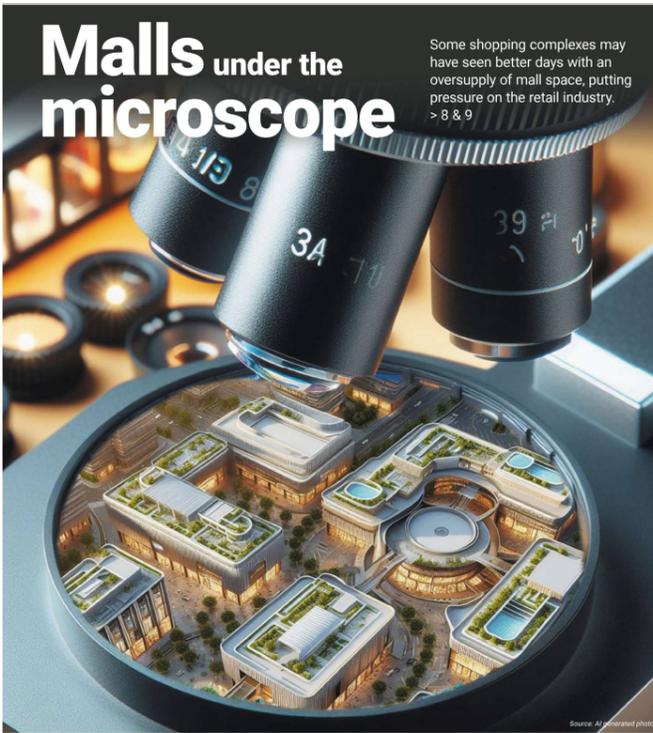


Malls under the microscope

Some shopping complexes may have seen better days with an oversupply of mall space, putting pressure on the retail industry. > 8 & 9



8 Cover Feature

RETAIL

By ELM POON
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The opening of The Exchange TRX in late November last year came with much fanfare. Despite being riddled with challenges such as negative interest and intense competition in the local mall landscape due to the seemingly endless supply of new floor space, The Exchange TRX was able to defy expectations by attracting a significant number of visitors.

The mall's immediate success also came as a pleasant surprise for its developer, Landsec, as it is becoming evident that the shopping complex's popularity is not a flash in the pan.

The Exchange TRX project director and Landsec Malaysia head of retail Mitch Wilson says the footfall rate of the retail mall has continued to surpass internal targets by about 25% month-on-month since its opening late last year.

"It was not the case where things were exceptionally busy in December with the momentum easing after that. The traffic we saw in December was primarily driven by curiosity with people wanting to come and have a look at the new mall. However, given that we are entering the fourth month since opening, the construction high footfall rate now suggests habitual visits among patrons," he says.

Dubbed as the new social heart of Kuala Lumpur, The Exchange TRX serves as a central mall within the 17-acre TRX Lifestyle Quarter. With over 400 stores spanning 1.3 million sq ft of net lettable area (NLA), this development represents a 60:40 joint venture between Landsec and TRX City Sdn Bhd, the master developer of the international financial centre.

The Exchange TRX's achievement stands out as a rarity amidst the oversupply situation that is plaguing the local retail sector. It was reported that between 2022 and 2026, there are a total of 5.47 million sq ft equivalent to 497 olympic-sized swimming pools of new malls expected to enter the Klang Valley market.

Further, in a recent report property consultancy Knight Frank noted three more shopping centres supporting retail competitors with a collective retail space of about 1.7 million sq ft equivalent to 126 olympic-sized swimming pools are scheduled for completion or openings this year in the Klang Valley. These include the 118 Mall, Pavilion Damansara Heights (Phase 2), and Elmina Lakeside Mall.

Rahim & Co International Sdn Bhd real estate agency chief executive officer (CEO) Siva Shankar says the incoming floor space will undoubtedly exacerbate an already challenging market dynamic. He adds given that the supply of malls outpaces the population growth, some existing malls will either have to exit the business entirely or experience higher vacancy rates.

"The older malls may struggle to retain tenants as businesses migrate to newer developments, resulting in these shopping complexes emptying out or repurposed into storage areas," he tells *StarBizWeek*.

A case of one too many malls

Despite talk of oversupply in the retail space, developers keep building more shopping complexes. Can these projects thrive?



"The most important thing for us in acquiring new assets is yield accretion and long-term sustainability."

Sabrina Halim

Retail/shopping complexes (Klang Valley)



As at 2023, the total of KL incoming retail supply stood at 5.1 million sq ft. For Selangor, it stood at 3.6 million sq ft. Source: JPPH, Rahim & Co

Over the years, a number of malls in the country have either crashed and burned or have seen better days with the likes of Phoenix Mall, Sungei Wang Plaza, Maju Junction Mall, Jaya Shopping Centre, Danga City Mall and Lot 1, Waterfront City Mall.

Besides, most of the city centre malls are not only located within a confined geographical area, situated in close proximity to one another, but they also feature a similar tenancy mix.

Movie theatres have long been viewed as one of the main anchor tenants and key drivers in attracting visitors to a shopping complex. Hence, it is worth mentioning that PFP Group Bhd, majority-owned by the Kook family, has shuttered at least seven Golden Screen Cinemas (GSC) theatres since 2020. Golden Screen Cinemas Sdn Bhd is a wholly-owned subsidiary of PFP Group. This move could be attributed to GSC repositioning into newer or higher-traffic malls.

For instance, GSC has recently relocated from Berjaya Times Square Kuala Lumpur (BTS), where it had operated for 17 years, to Lalahut, which is about six minutes drive away from BTS. GSC ceased to operate out of Berjaya Times Square in late November last year.

GSC has also announced the closure of its outlets in Klang Parade Mall and Heritage Mall Kota Tinggi effective April 1, 2024. Following the closure of its branch at 3 Damansara Mall earlier in March

after 15 years of operations. Further, in August 2023, GSC decided to close its outlet at Alamanda shopping centre in Putrajaya and said it has another outlet at IRI City Mall 1 & 2 in Putrajaya.

From a construction standpoint, it seems that developers are building infrastructure that is not as high-demand. Hence, the question begs to be asked, why do developers keep building more malls despite talk of oversupply in the space?

Siva says while there is no definitive answer to the question, he opines that developers may continue to embark on mall construction projects as they believe their will turn out differently or that it caters to niche customers.

"Nevertheless, it is noticeable that the majority of recently constructed malls take into account modern retailing trends and consider consumer aspirations in relation to retail space," she says.

Echoing this sentiment, IRI REIT Management Sdn Bhd CEO Elizabeth Tan says more than just a place to go and shop, consumers are looking for experiences they can share with their friends and family. This meant that visitors want to be in spaces that are comfortable, safe and conducive to building community and connections.

"We will continue to focus on AEI to upgrade our equipment and infrastructure. Moreover, we differentiate from the competition by gearing towards community-centred engagement to enhance the experience of our customers. Maintaining a vibrant tenant mix that meets the needs and wants of customers is also crucial," she says.

Nikolicheva states that some malls fare better than others due to their location being at top

ends need to ensure that the mall's design and offerings align with the preferences of the community it serves. This approach is vital for the survival and success of a mall," he says.

To remedy the oversupply situation, Siva suggests halting the construction of new malls, at least until supply catches up with demand, which may take three to five years. Additionally, existing malls need to refurbish or reposition themselves periodically to remain relevant among consumers.

"Consumers' preferences are rapidly evolving. As such, the refurbishment of malls cannot be a one-time occurrence. It is important to allocate some funds every few years, for this purpose."

"In some cases, a mall may require both refurbishment and repositioning. For instance, Lowyat Plaza and Digital Mall at Petaling Jaya.

"These shopping complexes, being older, were in greater need of refurbishment. However, these malls have worked well because they repositioned and repositioned themselves in terms of their offerings and the target market they serve," he says.

In this aspect, CapitalLand Malaysia REIT Management Sdn Bhd CEO Tan Choon Siang observes that retailers have become more prudent and selective in their business expansion, while consumers are spending more on experiential retail and wellness-related trades, following the Covid-19 pandemic.

Hence, in order to drive value creation, CapitalLand Malaysia Trust (CLMT) completed two asset enhancement initiatives (AEIs) at Gurney Plaza and 1 Damansara in 2023. At Gurney Plaza, the AEI involved the creation of an additional 4,000 sq ft of net lettable space on level four to maximise space efficiency and enhance the current tenant's offerings.

"We have also repositioned some of our assets to cater to the evolving business needs of our tenants and shoppers. For example, the lower ground floor at 3 Damansara refurbished its tenant mix through an AEI where we have introduced more than 15 tenants and brands to serve the

market. This move in correlation with demand and supply, and the enhanced trade mix (due to it first on mainland Penang), the mall has become a destination mall with many willing to travel further to visit it," he says.

Chan remains highly optimistic about Sunway Malls' performance both in the near and long term, as the group's track record has shown that it generally outperforms the market even with the emergence of new malls.

"ICB-REIT is entering 2024 cautiously as consumer demand and sentiment are anticipated to be dampened by the tax hikes, new taxes and the rationalisation of subsidies across commodities and utilities.

"Apart from a proven track record, the strong brand equity of Sunway as well as an established network of retail partners would continue to serve the market."

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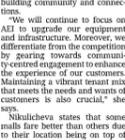
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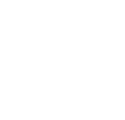
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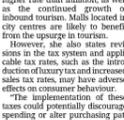
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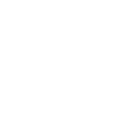
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Proper planning and management the key

By SYAZWANI HASMIZAM
syazwani@thestar.com.my

WITH more shopping malls heading their way into 2024, it's hardly surprising that we are witnessing a glut in the sector.

As of the fourth quarter of 2023, Malaysia boasted 1,074 shopping malls with a combined retail space of 17.69 million sq m, with the Klang Valley contributing roughly 200 shopping malls and offering a retail space of 6.5 million sq m.

Amidst the already saturated market, another 13 shopping malls with a space of 1.13 million sq m in incoming supply and 10 complexes with nearly 0.35 million sq m in planned supply are expected.

This begs the age-old question of whether the performance of shopping malls will be impacted in the years to come, or will they cease to exist altogether.

StarBizWeek caught up with four experts within the industry to capture their thoughts on the likelihood of shopping mall cannibalisation occurring outside of the Klang Valley.

Savills Malaysia group managing director Datuk Paul Khong believes this issue is unlikely to take place in the Klang Valley. In fact, shopping malls in other states have an equal possibility of cannibalisation between retail and supply, newer mall developments can still thrive with the right trade mix, development concept and clear positioning.

"The basis of malls is to serve its intended market as closely and relevantly as they can on the principle of demand and supply. Adherence to this increases the success rate," he says.

Drawing from operational experience, Chan says Sunway Carnival is an example of how a successful mall in an underserved area attracts patronage beyond its primary catchment.

"We are seeing shoppers originating from Kuala Lumpur primarily Sungai Petani, Kelan, etc. which make up 11% of the mall's shoppers with the completion of Sunway Carnival's expansion in 2023.

"Because of the enlarged and enhanced trade mix (due to it first on mainland Penang), the mall has become a destination mall with many willing to travel further to visit it," he says.

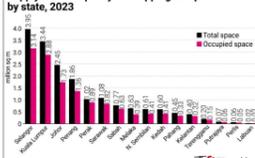
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Supply and occupancy of shopping complexes by state, 2023



Source: Nipic

StarBizWeek: Why do you think the cannibalisation of shopping malls occurs?

Khong: The oversupply in certain markets and areas lead to increased competition and the cannibalisation phenomenon that leaves many malls struggling to survive.

With the recent escalating operational cost, ranging from rentals to utilities as well as labour, the profit margins of mall operators and retailers are now being squeezed.

Malls with a low and declining occupancy rate may be facing a challenge in hitting up their vacancies. Such a situation may eventually cause a deterioration in their operations and maintenance, affecting their viability as it becomes worse.

Be it in the Klang Valley or out of state, similar issues are actually being faced by mall operators nationwide, leading to the "death" of these shopping malls if they fail to mitigate.

Wong: The lack of understanding of the current retail landscape, particularly when it comes to the specific location and demographic profile of the catchment area.

Aside from that, the absence of proper retail planning and design thinking also contributes to the cannibalisation of these new malls.

Developers should not assume that the same formula that succeeded in another mall can be applied to their mall as well. Catchment analysis is equally as important, as is the long-term vision for the success of the mall.

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Sunway Malls well," he says. Chan cautions that ensuring a vibrant tenancy mix is important in attracting footfall and establishing strong business relationships with retailers and partnerships with multiple brands is important.

"There is a growing dependency on collaboration to bring in the latest retail formats, attractions and more importantly, driving growth phase. The quality retail space will enable Sunway Malls to cater to a variety of new and fresh offerings, including more Muslim-friendly offerings. Of course, this will go in tandem with discipline cost-containment exercises," he says.

On this note, Hekker Asset Management business development and strategy general manager Sahrudin Haini says the company is targeting to carry out AEIs in Sabang Parade (Malacca), RM4000 and Segamat Central, with other assets (Malakka Parade, Wetex Parade, Central Square, and Jalan Central) considered to be stable, having high occupancy rates and would require only tenancy reuniting exercise at this point.

"The optimum time for the refurbishment of shopping centres is determined more by the life cycle stage rather than physical age. Refurbishments ideally every seven to 10 years, are preferred," she says.

Three out of Hekker's six malls enjoyed an occupancy rate of over 90%, as at February 2023, while Sabang Parade has the lowest occupancy rate of 75%. The latter is expected to reach an occupancy rate of 85% to 90% by the end of the year following tenancy reuniting efforts.

Hekker's AEI initiatives across its malls have yielded positive results, evident in the growth of its assets' valuations.

"Soon after we acquired Sabang Parade, we carried out a major AEI in 2017 which was followed by Malakka Parade in 2019, and Wetex Parade in 2020.

"Once the AEIs are completed, the full results are not usually captured immediately as it may take one to three years to complete the reuniting exercise and the rental rates to stabilise. To give an idea, the rental revision for Sabang Parade three years after the first AEI rose to as high as 31% and occupancy was at 100%," Sabrina says.

In terms of valuations, Sabang Parade was RM2.2bn pre-AEI and went up to RM4.7bn in three years, and is now about RM1.8bn.

"There is still notable potential in other use cases (apart from Klang Valley), many of which are still underserved, which is also part of the reason why our portfolio is well diversified geographically.

"The most important thing for us in acquiring new assets is yield accretion and long-term sustainability. We found that the leading mall or even the monopoly and the yield is also much higher," she says.

Growing dependency on collaboration

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Guan Chong deals with skyrocketing cocoa prices

Pawnbrokers riding on strong gold collateral

Narrowing market share price and fair value