



Sands China's third-quarter retail revenues were up 17.5% from a year earlier to \$104.7 million. Operating profit grew 18.6% to \$94.8 million as operating margins widened to 90.5%. Morgan Stanley notes that retail growth outstripped the company's casino business with pre-tax earnings up 19% year on year and 40% quarter on quarter.

going forward," Vice President for Public Relations Buddy Lam says. "It will make us a more complete destination."

Melco Crown signaled its commitment with the August opening of SOHO at City of Dreams—a "lifestyle shopping, dining and entertainment precinct," as it's billed—and will be "substantially expanding" retailing at the resort ahead of the scheduled opening in 2017 of a fifth hotel tower. Early plans put the number at around 200 shops. On its third-quarter conference call, Melco Crown confirmed



Melco Crown Entertainment's **City of Dreams** has 176,000 square feet of retail space and 70 outlets.

NOT BY RENT ALONE: THE MALL VS. THE STREET

By **Muhammad Cohen**

MACAU'S RETAIL trade has expanded immensely since Sands China opened Shoppes at Venetian in August 2007, but as with gaming, the center of gravity is steadily shifting to Cotai.

"The advantages for a retailer being on Cotai are numerous, so it's a really easy decision compared to Macau's traditional downtown," says Morgan Parker, chairman of the Asia Pacific Research Council of the International Council of Shopping Centers. "Being in an organized mall compared to a street provides a retailer with certainty as to the quality and consistency of other tenants nearby. In the street, the retail mix can be random, and therefore retailers often can't leverage the pull of their neighbors."

There are other advantages, he adds. "The casino landlords are

all large corporations who, generally speaking, are professional and consistent in their approach to managing the properties. On the street, retailers will likely deal with private or smaller landlords who may not understand what the retailers need. Successful retailing requires both a professional retailer and landlord to work together."

Rents, however, reflect little difference in the relative strengths of Cotai and the Macau peninsula. In January, Hong Kong-based Future Bright Holdings leased roughly 21,000 square feet in The Yellow House, a choice location near the Ruins of Saint Paul, for HK\$2.4 million per month for five years (US\$307,700), plus overage—additional payment if sales exceed agreed targets. Macau's first outlet of the American fast-fashion retailer Forever 21 opened there in July. Base rent for the five-level flagship store totals approximately \$175 per square foot annually. That's about the same as Sands China's Shoppes at Venetian on Cotai, where rents last year rose 21.8%—and 7.1% at the company's Shoppes at Cotai Central—resulting in average annual base rents of \$179 per square foot at The Venetian and \$120 at Cotai Central. At the company's Shoppes at Four Seasons on Cotai the average more than doubled, from \$150 to \$348, the result of an accounting change in which "a significant portion of the rent paid by the duty-free luxury shops was converted from overage rent

the expansion will include retail on its street frontage opposite The Venetian.

Meanwhile, Sands China has the 330-store gorilla in the market, Shoppes at Venetian, and keeps striving to solidify its leading position overall. Sands Cotai Central is completing a \$60 million mall expansion adding 150,000 square feet, bringing its total retail space to 400,000 square feet and the shop count to 140. The mall, opened in 2010, caters to families with a casual feel, children's fashion brands, DreamWorks animated character interactions, and a youth role-playing theme park due to open next year. The company says plans to add up to 200,000 square feet to the mall are already on the drawing board.

Renovations at Shoppes at Four Seasons, which opened in 2008, are creating 10 new outlets, pushing its total above 160. Plans call for completion in time for the holiday season. The project is boosting the mall's area to 260,000 square feet,

Galaxy Entertainment says its \$2.5 billion Galaxy Macau Phase 2 will expand the resort's total retail area to more than 1 million square feet encompassing both luxury and middle-market brands. "Retail is definitely important to us going forward," Vice President for Public Relations Buddy Lam says. "It will make us a more complete destination."



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the lowest occupancy cost might be in the location with the highest rent."

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International Council of Shopping Centers

to base rent in accordance with the respective lease agreements," as LVS explained in its annual report. The reason is that Shoppes at Four Seasons—"the world's highest grossing luxury mall," according to Sands Retail, the retail arm of parent Las Vegas Sands—registers by far the highest sales per square foot among Sands China's retail properties, \$5,810 in the year ended 30th September, compared with \$1,579 at The Venetian and \$1,472 at Sands Cotai Central.

But Mr Parker, who consults widely in the regional retailing industry, warns against measuring the appeal of a retail area by rents alone. "Retail rents are a function of the retailer's and landlord's expectation of retail sales at that location. You cannot compare rents from one location to another across Macau like you might residential or office space. Just because a rent is lower in a given location doesn't make it a better value."

Retailers rely instead on a measure called occupancy cost, which is the ratio of rent to sales. "Retailers are in search of the lowest occupancy cost," Mr Parker explains. "If the sales are high enough, the lowest occupancy cost might be in the location with the highest rent."

Also, for some retailers space may be the decisive factor. Shops average about 3,000 square feet at The Venetian and Sands Cotai Central and a little more than half that at Four Seasons. Forever 21

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