

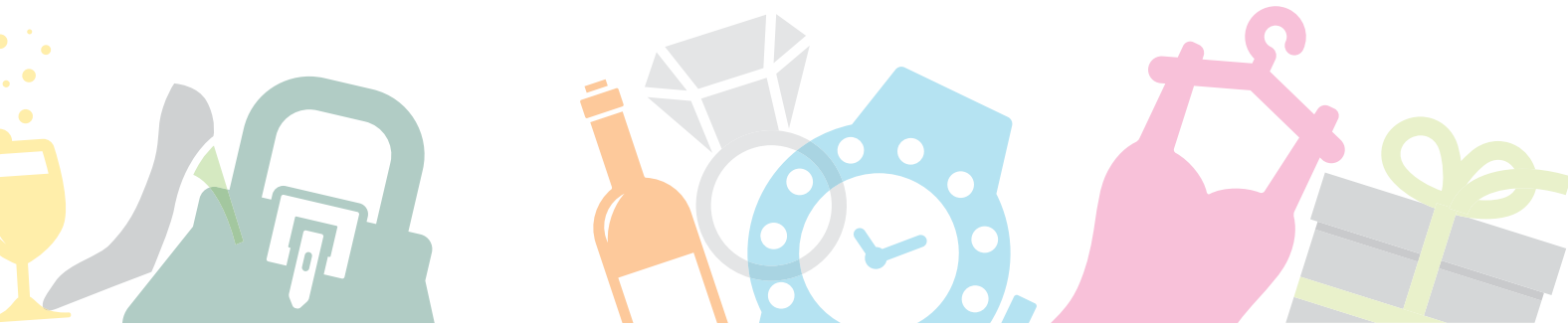
# THE NEW AGE OF THE ASIA PACIFIC RETAIL MARKET

GROWTH AMID INCREASING COMPETITION

CBRE GLOBAL  
RESEARCH AND  
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# Executive Summary

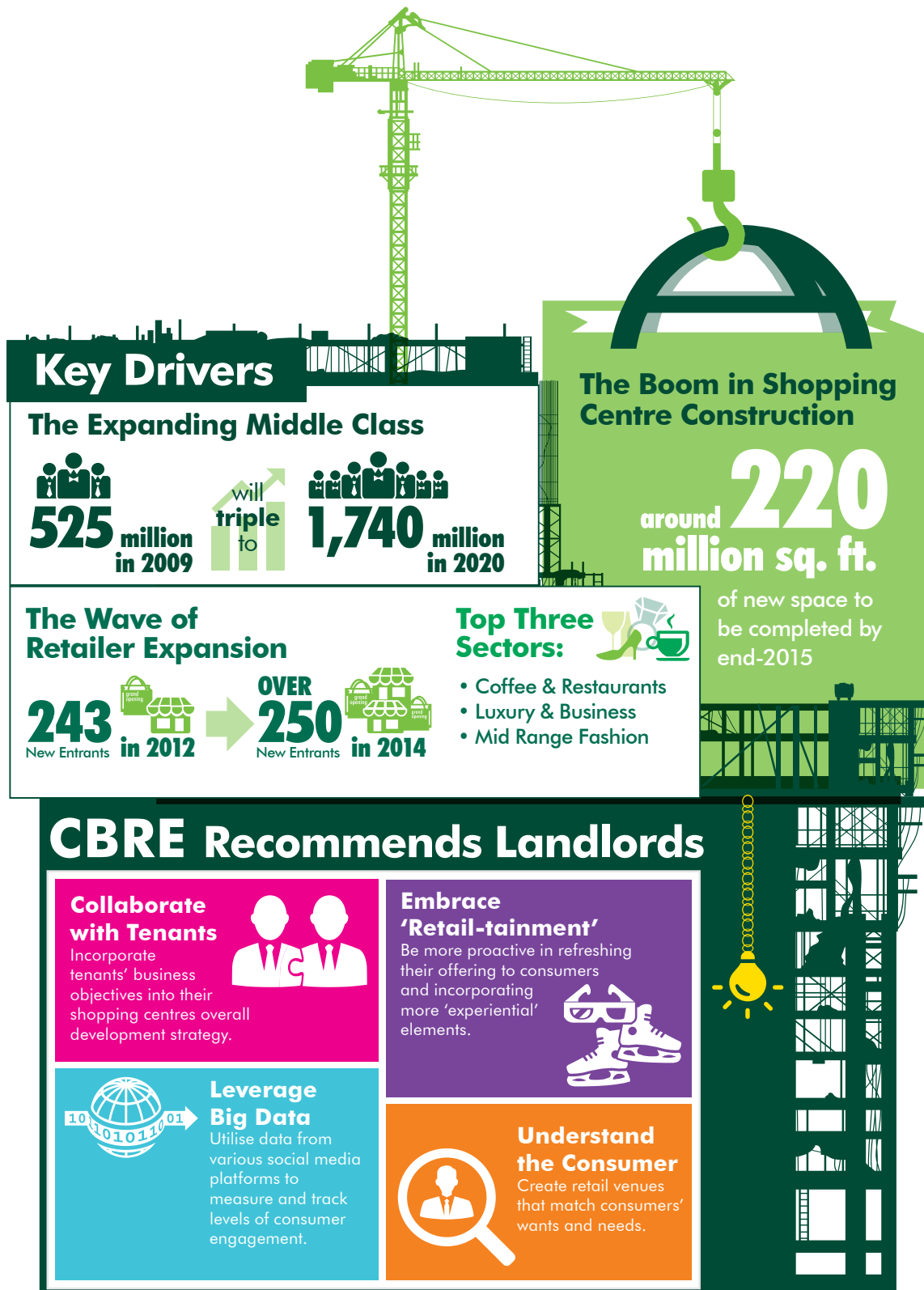
The Asia Pacific retail market has expanded at a rapid rate in recent years on the back of strong economic growth and the emergence of a large and prosperous middle class. This has prompted an influx of international retailers to the region, which in turn has fuelled the construction of a large volume of new retail real estate.

However, retailer demand has slowed in a number of key regional markets this year as stagnant consumption and labour costs discourage retailers from expansion in the likes of Hong Kong and Singapore. Elsewhere, the anti-corruption campaign in China remains in force and has resulted in a significant slowdown in the luxury retail sector.

There are a few bright spots such as Japan, where retailer demand is strengthening across all sectors following the recent upturn in economic fortunes. Nevertheless, the business environment in Asia Pacific is expected to continue to turn more challenging. Retailers will have to grapple with slower economic growth; rising operational costs; and stronger competition from new shopping channels such as e-commerce.

In this special report, CBRE Research Asia Pacific will present an overview of the drivers and trends that are shaping today's Asia Pacific retail market. The report pays particular attention to the challenges facing shopping centre landlords in the region and identifies appropriate strategies to ensure they stay relevant in what will be an increasingly competitive marketplace.

# THE NEW AGE OF THE ASIA PACIFIC RETAIL MARKET GROWTH AMID INCREASING COMPETITION



Source: CBRE Research, November 2014.

**CBRE GLOBAL RESEARCH AND CONSULTING**

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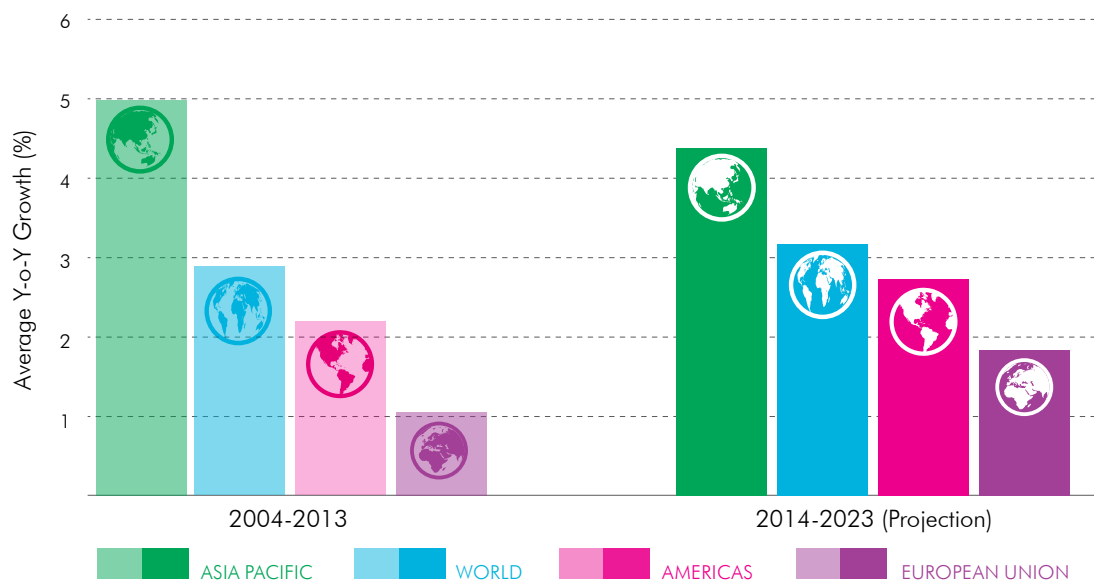
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# The Expanding Middle Class

Much of the growth in the Asia Pacific retail market in recent years has been driven by greater prosperity arising from strong economic growth and rapid urbanisation, which has brought about an explosion in the middle class population. Over the past decade, GDP growth in Asia Pacific has comfortably eclipsed other major economic blocs, a trend which is projected to continue over the next ten years (Figure 1).

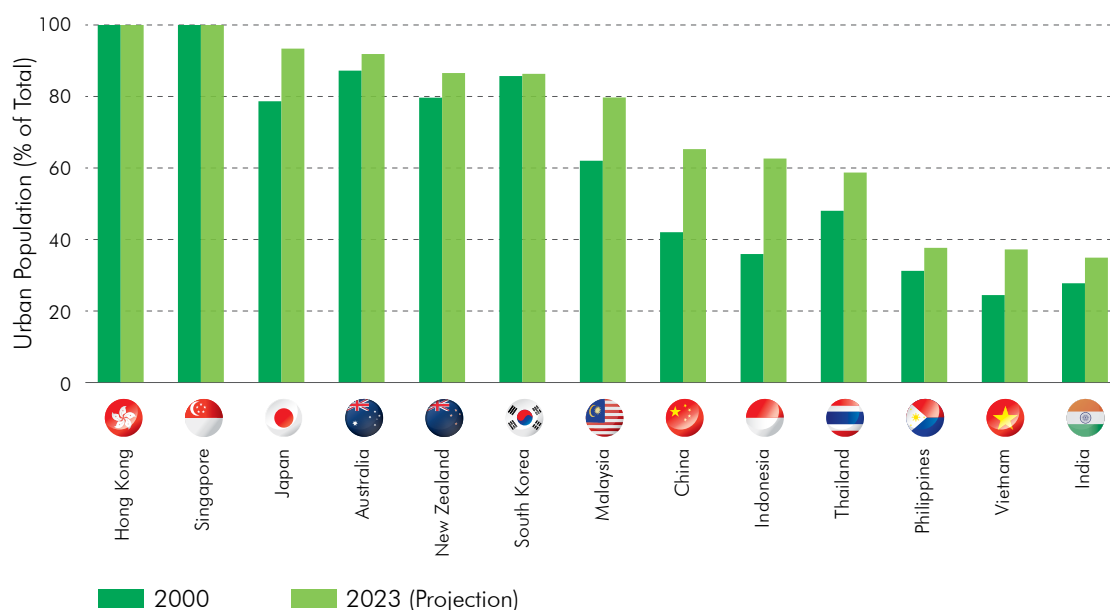
Figure 1: Global GDP Growth 2004-2013 and 2014-2023 (Projection)



Source: Oxford Economics, October 2014.

This robust economic growth has prompted the flow of millions into cities in search of employment opportunities and better quality of life/services in urban areas. According to The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), 1.96 billion people – an estimated 46% of the region’s population – lived in urban areas in 2012, compared with less than 40% ten years earlier. In 2013, China and India, the region’s most populous markets, had an urbanisation rate of 53.2% and 31.9% respectively. The former should see the rate reach 60% by 2020. Indonesia and Malaysia will see their urbanisation rate jump by 23% and 18% respectively by 2023.

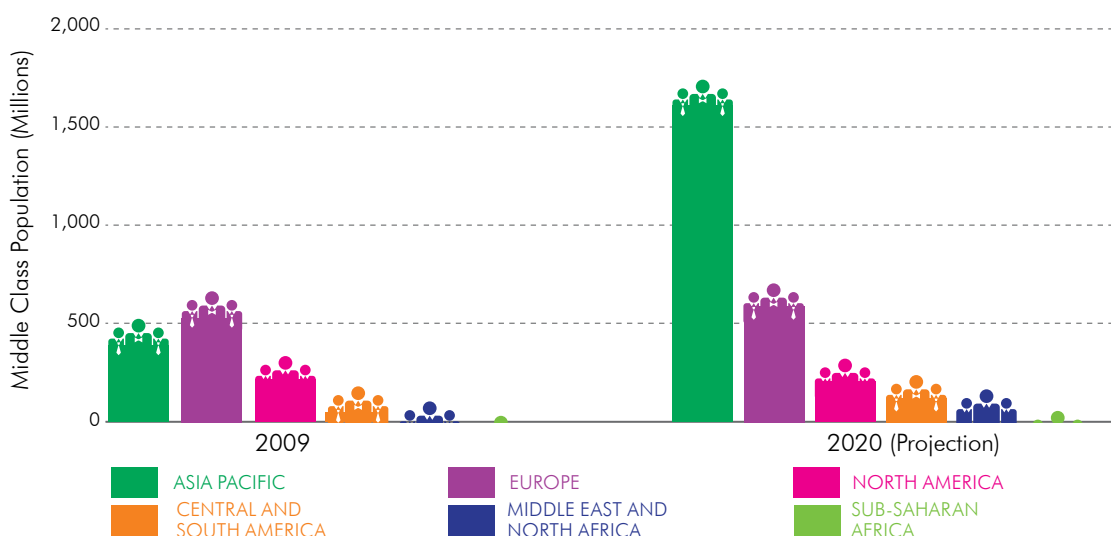
Figure 2: Urbanisation Rates in Asia Pacific in 2000 and 2023 (Projection)



Source: Oxford Economics, October 2014.

In March 2010, The Wolfensohn Centre for Development at The Brookings Institution released *The New Global Middle Class: A Cross-Over from West to East*, a report on the growth of the middle class population in Asia Pacific. The report stated that Asia Pacific, particularly China and India, will continue to account for the bulk of global middle class population growth in the coming years. In 2009, 525 million people in the region with daily spending of US\$10 to US\$100 (2005 PPP\$), accounted for 28% of the world's total middle class population. This number will triple to 1.7 billion by 2020 (Figure 3). As the regional population becomes more prosperous, consumer spending will gradually expand from daily necessities to discretionary items such as cars, apparel, fashion accessories and consumer electronics. The report projects that China, India, Japan and Indonesia will all be in the top ten global markets for retail consumption demand by 2020.

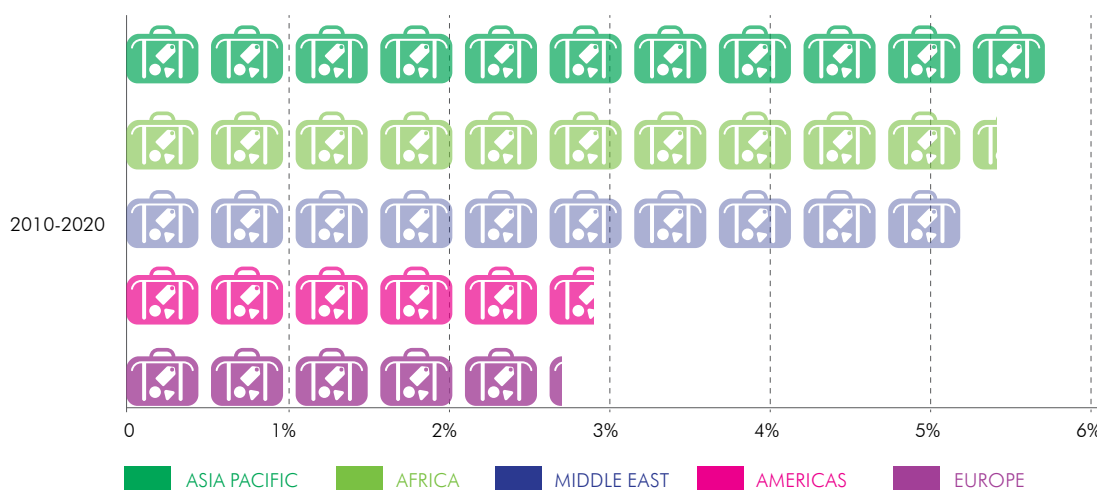
Figure 3: Middle Class Population in 2009 and 2020 (Projection)



Source: Wolfensohn Centre for Development at The Brookings Institution, 2010.

Alongside strengthening domestic demand, the rapidly expanding regional tourism sector will provide extra support to retail market growth. In UNWTO Tourism Highlights – 2014 Edition, The United Nations World Tourism Organisation (UNWTO) projects that international tourist arrivals to Asia Pacific will rise by 5.7% y-o-y on average from 2010 to 2020, the strongest growth among all regions.

Figure 4: Average Annual Growth of International Tourist Arrivals Received – Projection for 2010-2020

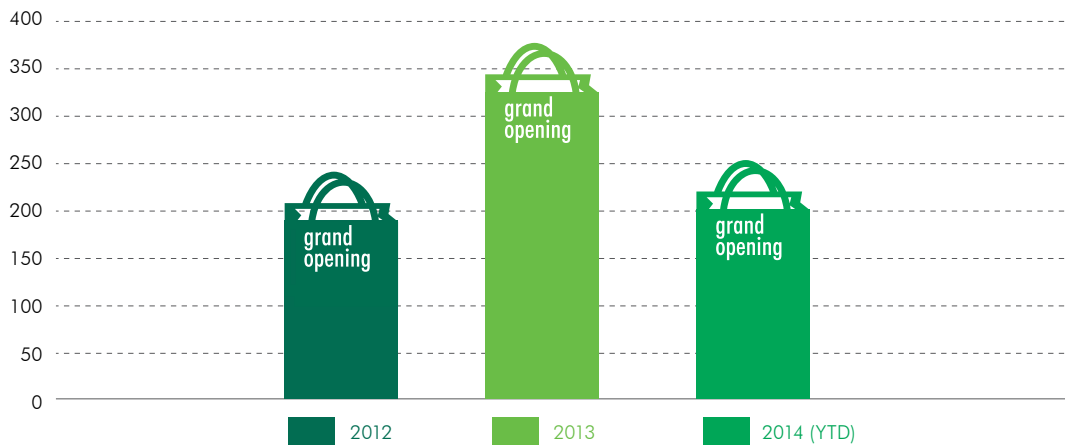


Source: United Nations World Tourism Organisation, 2014.

# The Wave of Retailer Expansion

International retailers continue to enter and expand in Asia Pacific at a rapid rate to gain market share and take advantage of the growth of the middle class and rising disposable incomes within the region. Despite concerns over the slowdown in economic growth and retail sales, especially in China, there continues to be an increase in the number of new retailer entrants across the region. CBRE Research data shows that the number new retailer entrants in Asia Pacific increased from 243 in 2012 to 377 last year. This number is expected to remain stable in 2014, as over 250 new entries were recorded in the first three quarters of this year. Most of these new entries were fast fashion brands. Notable new entrants to the region in 2014 include Abercrombie & Fitch, New Look and Old Navy in Shanghai; Urban Outfitters in Hong Kong; H&M in Manila and Melbourne; and Monki in Kuala Lumpur.

Figure 5: New Retailer Entrants in Asia Pacific 2012-2014 (YTD)\*

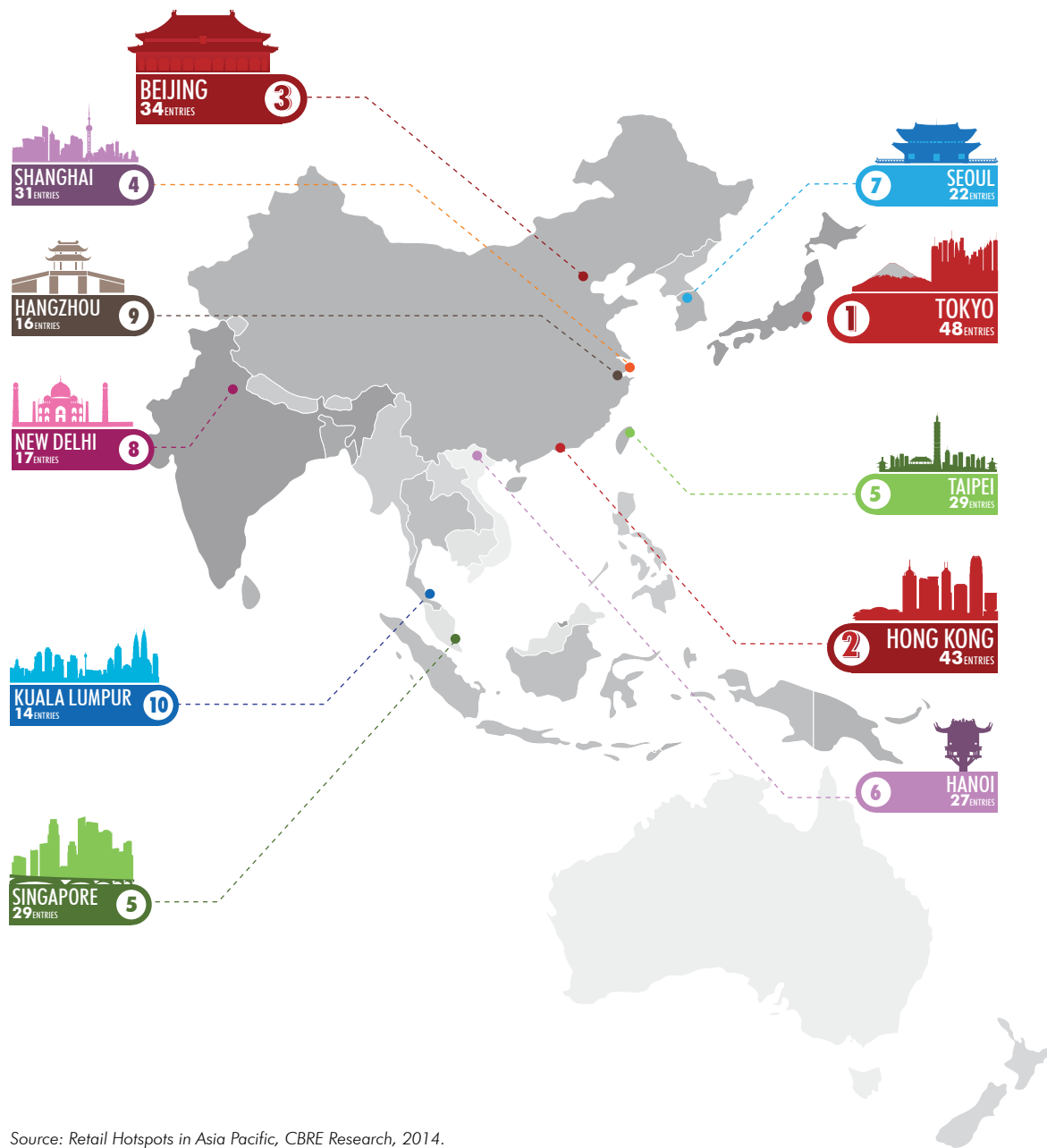


\*2014 (YTD) = end-Sept 2014  
 Source: CBRE Research, October 2014.



“Most new entrants in Asia Pacific this year are fast fashion brands.”

Figure 6: Top Target Markets for New Retailer Entrants, 2013

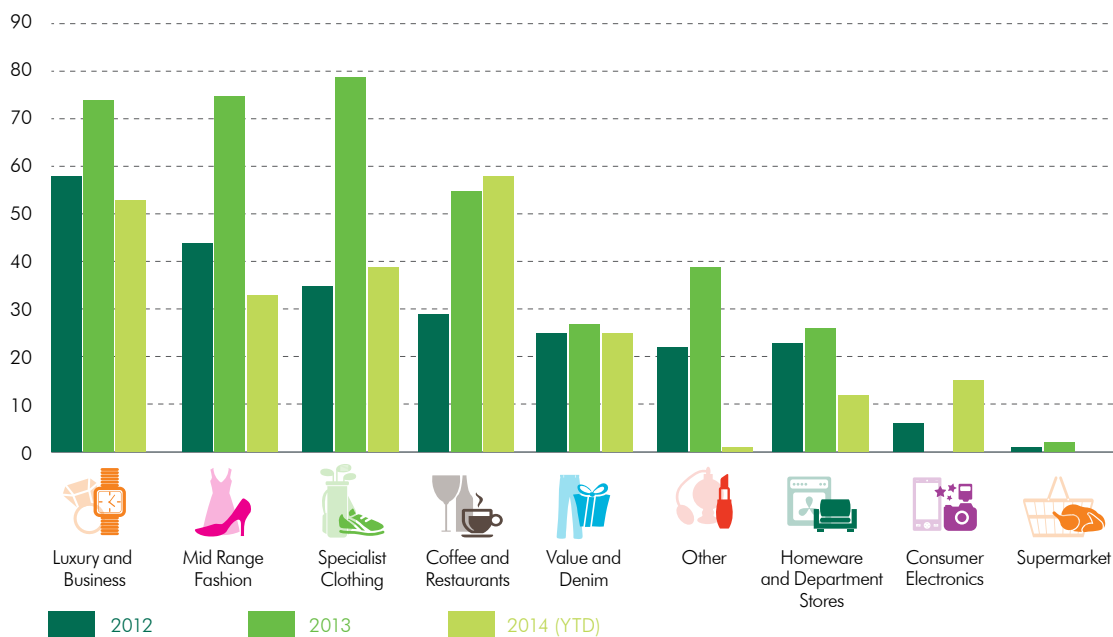


Source: Retail Hotspots in Asia Pacific, CBRE Research, 2014.

Among mature markets in Asia Pacific, Hong Kong, Shanghai and Beijing have seen the strongest flow of new market entrants looking to capitalise on the China growth story. Tokyo saw the strongest activity in 2013 and momentum has continued in 2014, particularly from luxury brands, which has underpinned strong rental growth this year. In Southeast Asia, Singapore is the main hotspot. Surprisingly, both Taipei and Seoul are among the most active markets globally for new retailer entrants. CBRE Research believes that this is due to the increasing number of tourist arrivals from China in these two cities.



Figure 7: New Retailer Entrants by Sector 2012 to 2014 (YTD)\*



\*2014 (YTD) = end-Sept 2014  
 Source: CBRE Research, October 2014.

In terms of new retailer entrants, mid-range fashion and specialist clothing retailers have been most active across the region over the past couple of years. In H1 2014, however, Luxury and Business retailers have displayed strong activity in Bangkok, Hong Kong and a few tier II cities in China. That said, the rapid growth by the luxury sector in China has faded since the implementation of the government’s anti-corruption campaign. This is prompting retailers in the sector to place a stronger focus on more mature markets such as Japan, where economic indicators have been improving.

Australia is a relatively underpenetrated market despite having the highest GDP per capita in the region. Over the past year the country has seen strong activity from international retailers, particularly luxury brands and fast fashion groups. This has translated into rental growth in core retail areas of Melbourne and Sydney.

The surge of new retailer entrants in the Coffee and Restaurant category has been a noticeable trend in recent years as consumers in the region show a greater willingness to eat out and spend money on entertainment. At the same time, shopping centres are introducing a wider selection of F&B options to attract foot traffic. Quick-service restaurants – primarily fast food outlets – have been particularly active in Southeast Asia and India as they look to capitalise on those markets’ relatively young populations. In China, upscale F&B groups have responded to the slowdown in luxury spending by introducing mid-range restaurants.

CBRE Research expects that international retailers will expand to secondary cities in the region after establishing their presence in capital or tier I cities. Emerging Southeast Asia will be a strong area of focus due to the growing appetite for consumer goods and relaxation of foreign investment regulations. The construction of new high quality shopping centre supply is providing more options for retailer expansion in these markets. At the same time, increased competition among shopping centres is encouraging landlords to bring in new brands to attract shoppers. Key growth markets will include Hanoi and Ho Chi Minh City in Vietnam and major cities in Indonesia, Malaysia and the Philippines.

# The Boom in Shopping Centre Construction

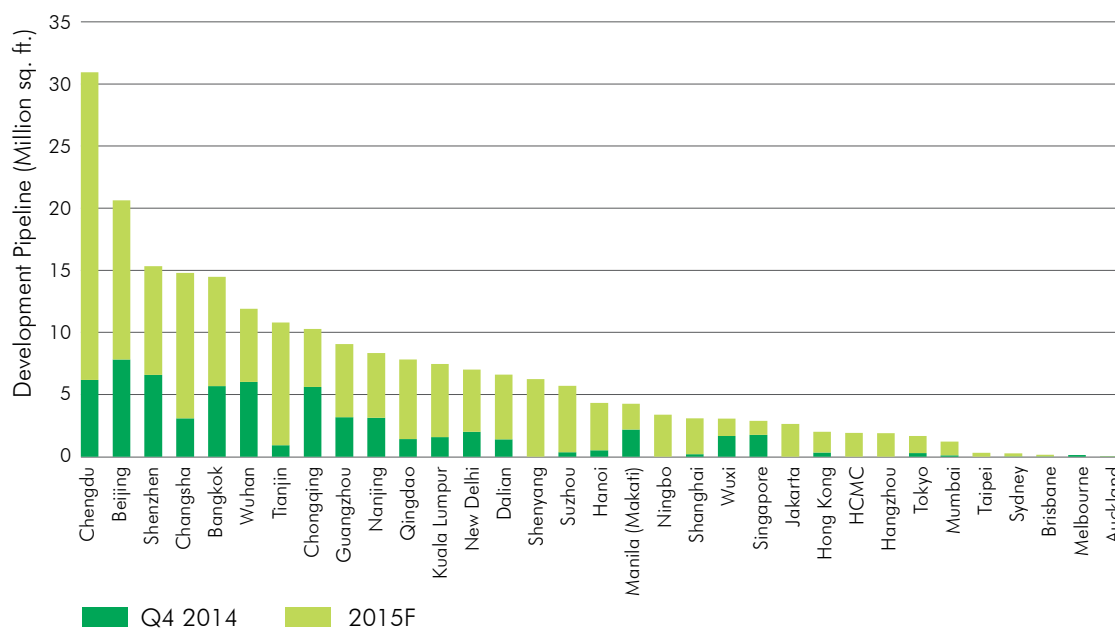
Asia Pacific continues to witness a boom in new retail construction as developers seek to meet demand from international retailers for high quality and organised retail space. Around 45 million sq. ft. of new retail space was completed in Asia Pacific in the first three quarters of 2014, boosting the total supply of retail space in the region to over 700 million sq. ft.

China has seen the addition of the largest volume of new stock in the region this year, with an aggregate completion of around 34 million sq. ft. YTD. Southeast Asia is another hotspot for development, with Bangkok, Kuala Lumpur, Manila, Jakarta and Singapore each seeing the completion of more than 1 million sq. ft. of new retail space so far this year.

Retail space in relatively mature markets such as China, Singapore and Malaysia is coming under increasing rental pressure because of the volume of new supply, particularly in suburban areas. In contrast, the robust expansion and upgrading demand from international retailer expansion in emerging Southeast Asian cities such as Manila and Jakarta is supporting the steady growth of retail rents.

Around 220 million sq. ft. of new retail space is currently under construction in the region, many of it in tier II cities in China, a trend which has led to concerns about oversupply.

**Figure 8: Retail Development Pipeline in Asia Pacific - Q4 2014 & 2015F**



Source: CBRE Research, October 2014.

Most of this new supply is located in suburban locations which tend to be in emerging residential areas. The consumer and catchment profiles are different from those core shopping districts and data in these locations can be limited. Retailers also tend to be more cautious towards shopping malls with unproven business performance and management. These factors, combined with fierce competition among malls to attract tenants, is putting rents in suburban areas under strong downward pressure. Some landlords have responded by lowering asking rents significantly to increase occupancy but this is only a short term solution to the longer term challenge of attracting the right tenants. Cities including Chengdu, Guangzhou, Shenzhen and Kuala Lumpur all expect average rents to decline due to the weak performance of malls in decentralised areas.

# The Competitive Retail Marketplace

2014 has seen strong leasing activity from new entrants but retailers are generally more cautious when entering a new location. They tend to open one or two stores to test the market before expanding on a larger scale, whereas previously they would open four or five. Existing retailers in Asia Pacific have also generally adopted a more cautious attitude towards expansion. The general focus is on portfolio reviews and consolidation, although retailers continue to display a strong interest for well-established properties/locations in markets with a proven track record.

At the same time, consumers in the region are becoming more knowledgeable, sophisticated and are placing greater importance on the overall retail experience. The convergence of these two trends means shopping centre landlords must have a thorough understanding of their tenants' and consumers' needs and requirements to ensure they remain relevant in today's increasingly competitive retail marketplace.

CBRE Research recommends shopping centre landlords focus on the following strategies.

## Collaborate with Tenants

The success of any shopping centre is built on the quality of its tenants. Landlords should strive to understand the target customers of their existing or potential tenants and incorporate their tenants' business objectives into their shopping centres overall development strategy. Personalising the retail experience by offering unique retail concepts, tailor-made products and themed promotional events can enhance consumer awareness of the synergies between a retailer and a particular shopping centre.

Examples include Agnès b's one-stop lifestyle concept store at K11 Art Mall in Hong Kong. The shop includes fashion products, a florist, a cafe, books and music. Elsewhere, The Embassy Diplomat Screens – a cinema at the new Central Embassy Mall in Bangkok – has introduced adjustable lights, a butler service, electrical chargers and complimentary mini-bar.

## Embrace 'Retail-tainment'

In today's competitive retail environment, shopping centre landlords need to be more proactive in managing their tenant mix and refreshing their offering to consumers. Popular trends in the region include introducing new and exciting brands to shopping centres and incorporating more 'experiential' elements such as food courts, cinemas, ice-skating rinks, bowling alleys, children's playgrounds and pet parks. In the Philippines, the SM Seaside City Cebu mall to be completed in 2015 will include cinemas, an 18-lane bowling alley, a 1,020-seat theatre and a 250,000 sq. ft. roof garden.

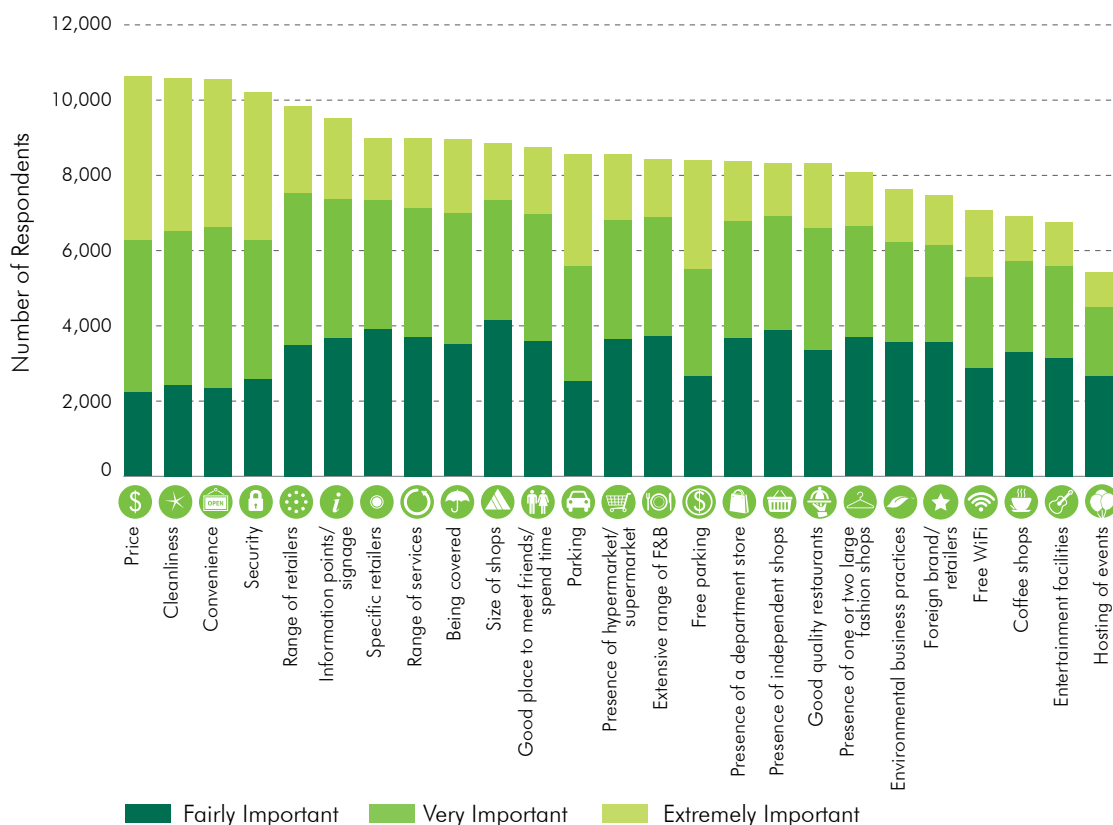
CBRE Research has tracked an increase in the number and scale of events, performances and exhibitions at shopping malls across the region. These initiatives can provide consumers with a more complete "retail-tainment" experience which has been shown to drive foot traffic and increase the overall time shoppers spend at a retail destination. Investing and executing special events, in line with their mall's target audience and positioning, can help landlords achieve higher returns not only in terms of branding, image and media exposure, but also in revenue.

## Understand the Consumer

CBRE Research’s 2014 Asia Pacific Consumer Survey, *How We Like to Shop*, found that nearly all consumers in Asia Pacific place the most importance on the same group of factors when selecting a destination for non-food shopping. They have high expectations for the overall shopping experience and value a convenient travelling distance, price, cleanliness and security. The same report found that Asia Pacific consumers overwhelmingly prefer large shopping centres as they highly value the overall experience and variety provided by this retail format.

By using this type of information to understand consumers’ wants and needs, shopping centre landlords can create retail venues to match these preferences. However, this must be done at the conceptual stage of any project. Before selecting a site and planning access routes, developers must understand the modes of transportation consumers will utilise. Before designing the physical layout of a shopping centre, they must take into account the importance of the practical aspects of consumers’ shopping journey. They must implement the highest standards of property management to retain their customers and also understand how much shoppers can spend and where they want to shop.

Figure 9: Aspects of Shopping Centres Rated as Most Important by Consumers



Source: *How We Like to Shop*, CBRE Research, 2014.

## Leverage Big Data

Big data can measure and track levels of consumer engagement but is still underutilised by retail landlords in the region. With many social media platforms providing data that can track “likes” and “check-ins” for products and locations, landlords and retailers now possess the ability to analyse consumer behaviour in great detail. Instead of focusing solely on increasing their visibility on social media platforms, landlords and retailers should use existing data provided by consumers to formulate a more tailored strategy to enhance their overall shopping experience. Some landlords have formed partnerships with IT firms to implement the latest technology and data management practices.

# Conclusion

Overall retailer demand in Asia Pacific is set to remain subdued heading into 2015 but activity and demand levels will diverge across different markets. Japan and Australia are expected to remain upbeat whilst activity in India should pick up on the back of the relaxation of foreign direct investment in single and multi-brand retail. China, Hong Kong and Singapore will stay relatively quiet due to softening domestic consumption and Chinese shoppers' weaker appetite for luxury goods.

Mass market brands are looking to highly populated markets - primarily China and India - for expansion in 2015. Retailers in the luxury sector will opt to focus on the mature markets of Japan, Singapore and Hong Kong, with China less of a priority due to the ongoing anti-corruption campaign. Bridge brands will concentrate on slightly more mature markets, including Japan and South Korea. Other hotspots in 2015 include Hanoi and Ho Chi Minh City, as Vietnam will permit the establishment of wholly foreign-owned retail businesses from January of next year.

Flight to quality – in terms of location, the standard of retail facility and sophistication of shopping centre management – will become even more prominent in the region in future. Retailers will demonstrate a strong preference for well positioned shopping centres operated by experienced landlords with a proven management record, especially when they expand to new areas or markets.

The long term outlook for the Asia Pacific retail market remains positive and the region will continue to outperform other major economic blocs. According to Oxford Economics, real GDP per capita in Asia Pacific will grow by more than 40% to over US\$8,500 over the next ten years. The continued growth in domestic consumption will drive more retailers to invest in increasing their presence in the region and directly translate into firm and sustainable demand for retail space.

Major challenges include rising operational costs; the rapid growth of internet retailing; and an increasingly sophisticated and demanding consumer base. Retailers will have to implement higher standards of due diligence, competitor benchmarking and strategic planning as the retailing environment turns increasingly competitive. The increased level of competition will be especially visible in the shopping centre environment, where landlords will have to utilise strategies such as those recommended in this report in order to ensure they stay relevant and continue to attract shoppers and tenants.

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