

RETAIL HOTSPOTS IN ASIA PACIFIC

2013 Key Findings



CBRE Global Research & Consulting

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INTRODUCTION

The Asia Pacific economy continues to be relatively resilient and outperform other regions, due mainly to strong growth in South East Asian markets. The growth of the region's retail sector has been particularly impressive in recent years. According to Canadean's ***The Future of Global Retailing to 2016***, the Asia Pacific retail market is now the world's largest, with regional retail sales rising from US\$3.2 trillion in 2006 (31% of the worldwide total) to US\$3.8 trillion in 2011 (41% of the total). Asia Pacific is expected to account for just under half of the world's total retail sales by 2016.

Despite slower economic and retail sales growth in 2012, Asia Pacific continues to lure retail chains looking to capitalise on its young demographics, growing middle class and rising incomes. Tourism flows have also been a significant contributor to retail sales growth, with outbound tourists from China accounting for a large portion of retail sales across the region, particularly in Hong Kong. These drivers and others are prompting major retailers to further expand their footprint across the region and are also luring a steady flow of new market entrants.

To examine the expansion of international retailing in more detail, CBRE has tracked and analysed the extent to which retailers have expanded their operations outside their own market by tracking new store openings by retailers entering a market for the first time.

We classified cities as "established" markets or "maturing/emerging" markets. Although several markets have characteristics that could place them into either category, those cities with the fastest historic and expected future rates of personal income growth have been identified as "maturing/emerging" markets. This is because of the high likelihood that they will continue to see significant changes in the structure and size of their retail market.

Furthermore, we categorized retailers by sector and identified their home market to determine which "types" of retailers were entering new markets and from where.

Retailer Category Classification:

- **Coffee & Restaurants:** includes fast food, restaurants, confectionary retailers and coffee shops.
- **Consumer Electronics:** includes computing, phones, other electronics and electrical retailers.
- **Homeware & Department Stores:** includes DIY, department stores and furniture retailers.
- **Luxury & Business Fashion:** includes any luxury retailers from all areas of retailing, including men's and women's luxury clothing/footwear, jewelry and business clothing retailers.
- **Mid-range Fashion:** includes men's and women's mid-market and casual fashion retailers.
- **Other:** includes all other types of retailers including chemists, pet stores, books, music and DVD retailers.
- **Specialist Clothing:** includes general (as opposed to luxury) footwear, underwear, sportswear, children's wear and accessories retailers.
- **Supermarkets:** includes multiple grocery/convenience stores, supermarkets and hypermarkets.
- **Value & Denim:** includes value and discount clothing, and denim retailers.

This report aims to identify the markets that have been the most successful in attracting retailers.

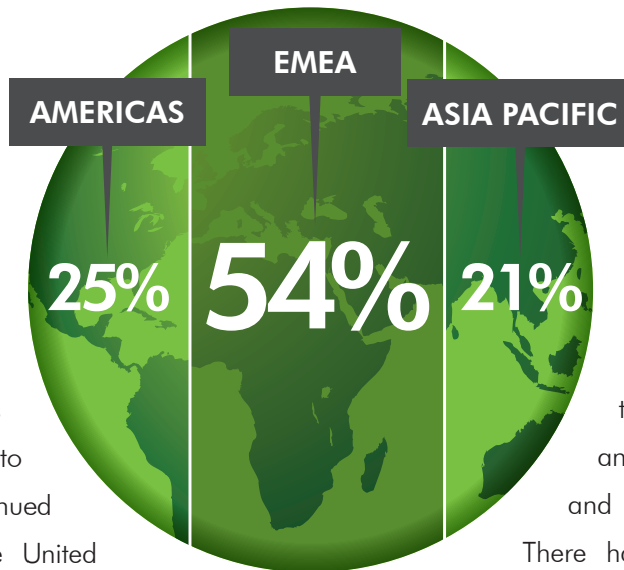
TOP CITIES FOR NEW RETAILER ENTRIES

It remains clear that retailers continue to look for opportunities to grow their store network outside their home market. Cross-border activity involving new retailer openings in Asia Pacific reflect the fact that the region continues to witness steady expansion from global and regional retailers. Hong Kong remains a key destination for many retailers and was ranked #6 in CBRE's *How Global is the Business of Retail 2012*. Rising demand and rents in the city have been largely driven by strong spending from mainland Chinese visitors, prompting retailers – particularly those in the cosmetics, luxury brands and jewelry sectors – to seek

a greater presence in key shopping districts. However, the supply of prime space remains tight. Nevertheless, Hong Kong and other "established" locations including Singapore and Tokyo continued to lead the rest of the pack in terms of the number of new retailer entries in 2012. However, so called "maturing/emerging" markets also witnessed an increase in activity. This trend is particularly prevalent in China, where tier II cities such as Wuhan, Shenyang and Nanjing are firmly on the radar of international retailers that are already established in Beijing, Guangzhou and Shanghai.



NEW RETAILER ENTRIES BY RETAILER ORIGIN



CBRE's *How Global is the Business of Retail 2011* revealed that American retailers were expanding aggressively into new markets, a trend that continued into 2012. Retailers from the United States accounted for 77 new entries across Asia Pacific in 2012, almost double those of the next best placed country, France (41). Retailers from within Asia Pacific

have also been active, led by Japanese (36) groups in the value and denim, coffee and restaurants, and homeware and department store sectors. There has also been activity from Korean retailers in the latter category and the consumer electronics sector, and by Chinese groups.

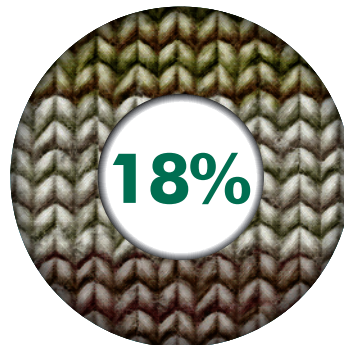
RETAILER COUNTRY OF ORIGIN



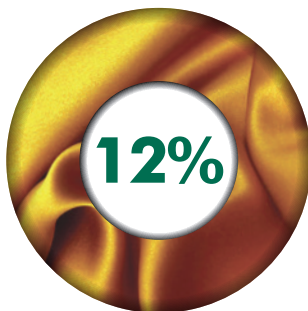
NEW MARKET ENTRIES BY RETAIL SECTOR



Luxury and Business



Mid-Range Fashion



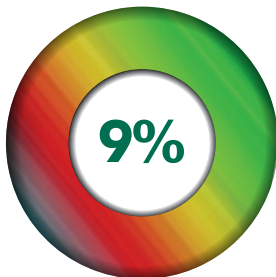
Specialist Clothing



Coffee and Restaurants



Value and Denim



Other



**Homeware and
Department Store**



**Consumer
Electronics**

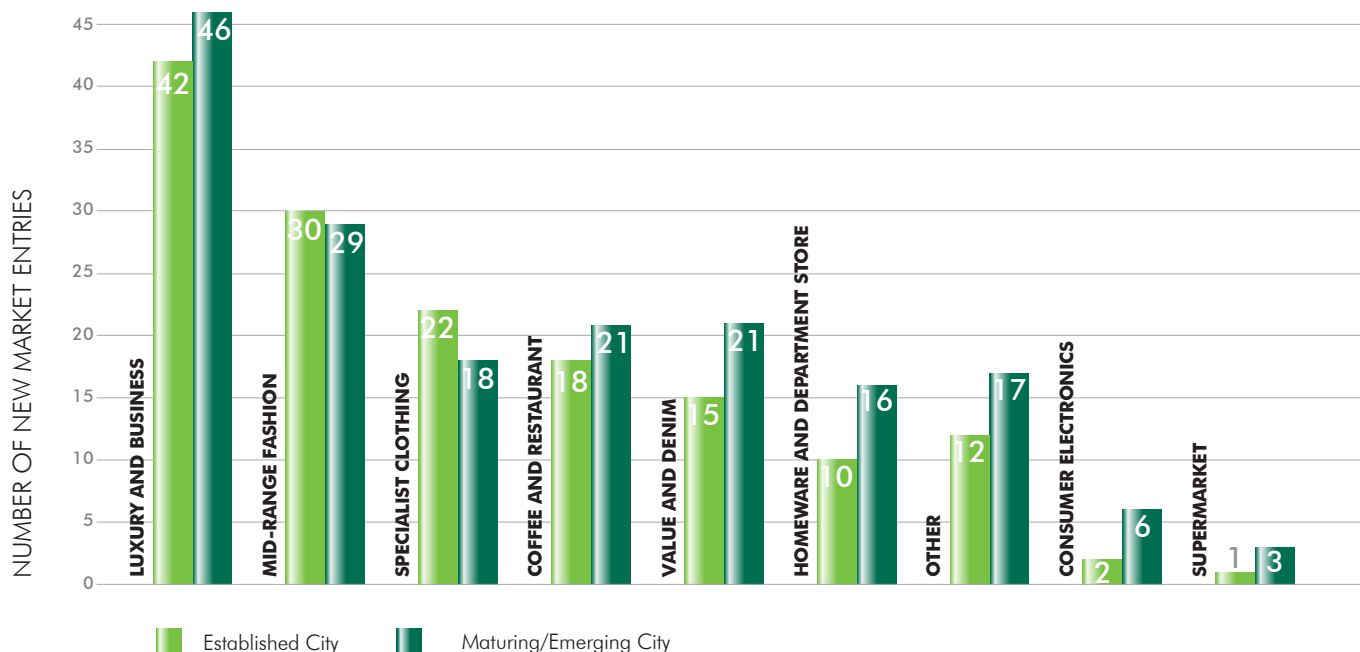


Supermarket

In terms of new entrants by sector, luxury and business retailers (27%) continued to account for the highest portion in Asia Pacific in 2012. However, with most of these groups already having a firm presence in established cities, many are turning their focus towards opening new stores in emerging locations. In overall terms, their portion of new openings is shrinking as

other sectors such as mid-range fashion (18%) expand at a faster rate. Coffee and Restaurants (12%) is another growth sector as international and regional F&B retailers expand to meet consumer demand for experience and entertainment-based retail, with this sector having a particularly strong focus on Australia, India, Singapore and emerging cities in China.

NEW RETAILER ENTRIES BY SECTOR & CITY MATURITY



Luxury and Business fashion retailers accounted for the largest number of new market entries in 2012 in both established and maturing/emerging cities. Many of these retailers have already opened stores in established cities and are now focusing more on emerging locations. This trend is most noticeable in China, where new retailer entries from this sector were lower in tier I (7) vs. tier II and tier III (28) cities.

Emerging markets in Southeast Asia – particularly Vietnam, Indonesia and Thailand – recorded solid retail

sales during 2012 due to robust domestic consumption. The likes of Ho Chi Minh City (15), Bangkok (8), Kuala Lumpur (8) and Jakarta (6) all saw a steady flow of new entrants over the course of the year seeking to tap into this demand. New Delhi (14) also welcomed the entry of several new retailers during 2012. The Indian market as a whole is anticipated to see the number of new retailer entries increase further following the government's move to permit foreign direct investment in multi-brand retail, which should herald the entry of foreign supermarket chains.

OUTLOOK

Asia Pacific will continue to drive global retail growth in 2013, but slower economic growth, rising inflation and regulatory hurdles all pose significant obstacles for retailers planning to expand. In some sectors, international retailers will face stronger competition from emerging local brands, whilst the growth of online retail may also eat into their market share. In some markets, retailers from overseas may find it challenging to adapt to local consumer preferences and will need to reassess and refine their product offering in order to succeed.

The lack of new prime retail supply in many established markets may also limit expansion in such locations, with the likes of Hong Kong, Tokyo and key cities in China all recording very low vacancy in core areas. Indeed, retailers in the region frequently cite a shortage of appropriate good quality units as the key factor limiting their expansion, they would be opening more stores if the right space was available.

New retailer openings in Asia Pacific are nevertheless expected to continue at a steady rate over the course of 2013, particularly from international value and denim retailers targeting emerging markets and also from Japanese and Korean groups. Australia will emerge as a major focus, with a number of big department store and mid-range fashion openings scheduled for this year.

*This report was updated in May 2013 to reflect additional survey results and the data may differ to that shown in earlier versions of this report.

CONTACTS

ASIA PACIFIC CONTACTS

Sebastian Skiff

Executive Director
Retail, Asia
Beijing
T: +852 6335 2023
+86 156 260 79333
E: sebastian.skiff@cbre.com.cn

Phoebe Mroczek

Manager
Retail, Asia
Beijing
T: +86 10 8588 0713
E: phoebe.mroczek@cbre.com.cn

Nick Axford

Head of Research, Asia Pacific
Hong Kong
T: +852 2820 8198
E: nick.axford@cbre.com.hk

Kim Mercado

Director, Asia Pacific Research
Hong Kong
T: +852 2820 2876
E: kim.mercado@cbre.com.hk

ASIA PACIFIC RETAIL CONTACTS

Australia

Josh Loudoun

Regional Director
Sydney
T: +61 2 9333 3382
E: josh.loudoun@cbre.com.au

Alistair Palmer

Director
Sydney
T: +61 2 9333 3396
E: alistair.palmer@cbre.com.au

China

Joel Stephen

Director
Shanghai
T: +86 21 2401 1375
E: joel.stephen@cbre.com.cn

Hong Kong

Neil Howard

Associate Director
Hong Kong
T: +852 2820 1437
E: neil.howard@cbre.com.hk

India

Sakshi Goel

General Manager
New Delhi
T: +91 12 4465 9733
E: sakshi.goel@cbre.co.in

Japan

Shina Fukui

Senior Associate
Tokyo
T: +81 3 5470 8878
E: shina.fukui@cbre.com.jp

Malaysia*

Allan Soo

Managing Director
Kuala Lumpur
T: +603 2092 5955
E: allan.soo@cbre.com.my

Philippines*

Joanie L. Mitchell

Director
Manila
T: +632 752 2580
E: joanie.mitchell@cbre.com.ph

Singapore

Letty Lee

Director
Singapore
T: +65 6326 1230
E: letty.lee@cbre.com.sg

South Korea

Aiden Hwang

Senior Manager
Seoul
T: +82 2 2170 5866
E: aiden.hwang@cbrekorea.com

Taiwan

Dories Lu

Associate Director
Taipei
T: +886 2 7706 9526
E: dories.lu@cbre.com

Thailand*

Jariya Thumtrongkitkul

Bangkok
T: +66 2 654 1111 ext. 221
E: jariya.thumtrongkitkul@cbre.co.th

Vietnam & Cambodia*

Richard Leech

Executive Director
Vietnam Retail
T: +84 4 2220 0220
E: richard.leech@cbre.com

*Part of the CBRE Affiliate Network

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