

Q3 2018

Asia Pacific Retail Trends

Retail leasing demand remains stable

F&B sector most active

Experiential retailers continue to expand

Fast fashion groups consolidate

Caution to prevail amid economic headwinds

Weaker RMB may impact Chinese tourist spending

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Overview



The regional retail market remained stable in Q3 2018, with major markets including Hong Kong, Japan and Korea reporting improving sales growth

- Leasing demand continued to be driven by F&B, led by bubble tea shops and coffee chains expanding in Hong Kong, China and Korea, although the competitive nature of the sector resulted in some closures during the quarter.
- Landlords are introducing more entertainment-based retail in shopping centres to increase consumer dwell time. Popular formats include cooking studios, indoor theme parks and games centres.
- Weak sales prompted several fast fashion retailers to close underperforming stores or exit markets altogether. Some landlords also sought to replace struggling apparel retailers with new tenants due to falling turnover rent income.
- Several luxury retailers have expressed concerns over business growth amid the uncertain geopolitical and monetary environment.
- Economic headwinds will ensure retailers remain cautious towards expansion despite the upcoming festive season. The weakening RMB may negatively impact sectors that rely heavily on Chinese tourist spending.

China



Leasing demand remained strong, supported by solid domestic consumption. Retail sales are expected to benefit from the personal income tax cut in October

SECTOR DEMAND



Coffee & Restaurants

F&B was the major driver of retail leasing demand, with bubble tea, hot pot and café formats expanding rapidly.



Gaming & Entertainment

The quarter also saw the emergence of indoor theme parks as a new driver of retail leasing activity amid strong demand from children and millennials. New openings were observed at LCM in Shanghai and Beijing Fangshan Paradise Walk.



Others

Electric vehicle companies including several domestic operators were also active, opening showrooms at various shopping centres.



Mid-Range Fashion

Overseas fast fashion retailers are struggling, with several major groups opting to slow the rate of expansion due to lacklustre sales performance. However, suburban landlords remain keen to add them to their tenant mix.

6-MONTH OUTLOOK & OPPORTUNITIES

| | |
|---------|---|
| Rent | ▲ |
| Supply | ▲ |
| Vacancy | ▶ |

- The online to offline trend is expected to continue as more domestic e-commerce platforms open bricks-and-mortar stores.
- More shopping centres are likely to lease space to coworking centres to fill vacant space.
- Shopping centre landlords will continue to add more entertainment-related tenants to increase foot traffic.



EMERGING TRENDS

Many retailers are focusing on opening flagship stores rather than a large number of smaller shops as they seek to generate publicity and increase brand recognition.

Retail sales are expected to benefit from the lifting of the personal income tax threshold, which will take effect in October. Items including mortgage loans, rents and children's education fees will be deductible from personal income tax, which should help to support consumption.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|--------------|------------------|-----------------|-----------|
| Under Armour | 6,070 | Seasons Place | Beijing |
| HeyTea Mix | 2,533 | Hubindao | Shanghai |
| FILA | 2,475 | HaiYa Mega Mall | Shenzhen |
| TUMI | 1,076 (net) | IGC | Guangzhou |

Hong Kong



Consumption sentiment improved despite slower retail sales growth. Strong visitor arrivals ensured steady leasing activity by tourist-oriented retailers

SECTOR DEMAND



Coffee & Restaurants

F&B remained a strong source of leasing demand. Bubble tea operators have been expanding rapidly but consumers' lack of brand loyalty is casting doubt over the sustainability of many operators.



Healthcare/Beauty/Cosmetics

Tourist-oriented retailers, led by large domestic personal care and cosmetics groups, continued to seek expansion opportunities in prime areas such as Mong Kok, Tsim Sha Tsui and Causeway Bay.



Luxury

Steady sales growth in the watch & jewellery sector stimulated some leasing activity by Hong Kong and Chinese groups in Causeway Bay and Central.



Sports

The period saw some activity from sporting goods retailers, including one major new entrant in Tsim Sha Tsui. Many retailers in this category are seeking relatively small spaces for specific product lines rather than committing to major flagship stores.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▶

Vacancy ▶

- The recent strong momentum in retail sales growth will likely weaken in the coming months as the low-base effect fades.
- The gradual implementation of interest rate rises should prevent any significant negative impact on retail market sentiment.
- Retailers in non-tourist oriented trades are expected to retain a cautious approach towards leasing in the short-term.



EMERGING TRENDS

The opening of the high-speed train and the Hong Kong-Zhuhai-Macau Bridge are expected to facilitate more tourist arrivals from late-2018.

Major risks include a possible slowdown in economic growth should the U.S.-China trade conflict remain unresolved. This could affect job security and household income and may result in the contraction of local consumption.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|----------------|------------------|-----------------------|--------------|
| Oriental Watch | 7,500 | Loke Yew Building | Central |
| Mannings | 4,300 | Causeway Bay Plaza 2 | Causeway Bay |
| Bonjour | 2,000 | 535-537 Lockhart Road | Causeway Bay |
| Lao Feng Xiang | 800 | Po Hon Building | Causeway Bay |

Japan



Leasing demand remained steady. Recent natural disasters are unlikely to have a material impact on inbound tourist consumption

SECTOR DEMAND



Healthcare/
Beauty/
Cosmetics

Demand from drugstores remained solid, especially in Shinjuku. Many hotels are situated in this area, making it an ideal location for retailers in this category to tap into inbound tourist demand. Competition for space is fierce, with spaces attracting enquiries from multiple prospective tenants.



Luxury

Luxury retailers displayed strong demand for space along high streets in prime districts of Tokyo, particularly in Ginza. These included groups with an existing presence in the area as well as retailers seeking to open their first shop in the district.



Coffee &
Restaurants

Leasing activity by F&B retailers was steady but the pace of new entrants continued to weaken.



Sports

Sporting goods and outdoor brands remained active in Shibuya, partly influenced by the fact that there are many sports bars and proximity to parks and 2020 Olympics.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▼

Vacancy ▼

- Overseas fast fashion retailers will continue to scale back their brick-and-mortar stores.
- Strong demand and limited supply means that there is a strong possibility that Tokyo high street rents will rise in the coming quarters.
- More tourists will explore entertainment and experience-oriented parts of Tokyo now that they are familiar with the main tourist areas.



EMERGING TRENDS

New supply this quarter included a multipurpose complex located to the south side of Shibuya Station. The retail zone on the first to third floors specialises in restaurants, hosting 30 such outlets including several innovative formats and new entrants.

Typhoon damage to Kansai International Airport temporarily slowed the number of foreign tourists visiting the Shinsaibashi area but there was a quick recovery following the restoration of flights.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|--------------------|------------------|-------------------------|-----------------|
| SUPER SPORTS XEBIO | 12,400 | Koen Dori | Shibuya, Tokyo |
| MooRER | 3,019 | Koizumi Build | Ginza, Tokyo |
| Buttermilk Channel | 2,900 | 1-11-11 Jingumae | Harajuku, Tokyo |
| DESIGNWORKS | 1,776 | Ginza Nagakudo Building | Ginza, Tokyo |

Korea



Leasing demand remained firm alongside steadily rising tourist arrivals. F&B and cosmetics were the most active sectors

SECTOR DEMAND



Coffee & Restaurants

F&B retailers, especially coffee and premium tea outlets, were the main driver of retail leasing demand in Seoul this quarter. Several new entrants from overseas opened their first stores at high street locations in Hongdae and Garosugil.



Healthcare/ Beauty/ Cosmetics

The period saw several foreign cosmetics retailers open their first stores in Seoul. Overseas retailers in this category increasingly see Korea as a test bed for new products and a foothold for further expansion in Asia due to the country's well-established beauty industry.



Luxury

Demand from luxury retailers was steady. Several retailers in this category have opened pop-ups in mass market locations to generate publicity around new launches and attract young customers.



Mid-Range Fashion

Fast fashion retailers continued to struggle and many groups are seeking to consolidate store portfolios.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▲

Vacancy ▶

- The gap in rental expectations between tenants and landlords of properties along main streets will encourage retailers seeking cost-effective space to consider secondary locations.
- New shopping centre supply is limited as developers focus on constructing outlets and duty-free complexes.



EMERGING TRENDS

After being inundated by mass market retailers in recent years, Garosugil is regaining its reputation as Seoul's trendiest high street following the reintroduction of boutique fashion and cosmetics brands.

Serosugil is developing an image as a trendsetting area following a number of major new openings including a French fashion label's flagship store and an Italian luxury shop.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|------------------|------------------|---------------------------|----------------------|
| Pierrot Shopping | 27,040 | Coex Mall | Samseong-dong, Seoul |
| GU | 14,961 | Lotte World Mall | Songpa-gu, Seoul |
| 10 Corso Como | 6,800 | (standalone) | Garosugil, Seoul |
| Lil Minimalium | 6,330 | (standalone) | Gangnam, Seoul |
| The Alley | 1,780 | Sinsadong Garosu-gil Road | Gangnam, Seoul |

Singapore



New entrants continued to drive leasing activity, supported by a steady flow of expansions by existing retailers

SECTOR DEMAND



Coffee & Restaurants

The F&B sector remained the biggest driver of new openings. Recent months have seen the launch of restaurants offering Sichuan and Mala cuisine catering to Chinese locals and tourists. The highly competitive environment has also resulted in some casualties, with one major overseas coffee chain closing all its branches this quarter.



Sports

Demand from sporting goods retailers, which commenced at the beginning of the year with a wave of new entrants, remained solid.



Gaming & Entertainment

Activity and entertainment-based retailers such as gyms, games arcades and cooking studios displayed steady leasing demand, supported by landlords' willingness to create a more diverse tenant mix to attract footfall.



Others

Selected operators in the supermarket segment are struggling amid heightened competition from online platforms and new entrants.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▲

Vacancy ▼

- Demand is expected to remain healthy but new pipeline supply is limited after 2019.
- Consumer spending will continue to follow innovative trends and new market entrants.
- The supermarket segment will see some consolidation as major operators review portfolios and close underperforming stores.



EMERGING TRENDS

The Great Singapore Sale held from June to August failed to register strong performance this year due mainly to the abundance of sales promotions and increasingly weary consumers.

Challenges include the high cost of labour, which is increasing operating expenses, and the strong Singapore dollar, which could hamper inbound tourist spending.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|--------------|------------------|---------------|----------|
| Tayo Station | 10,000 | Downtown East | Suburban |
| JD Sports | 7,136 | ION Orchard | Orchard |
| Footlocker | 3,000 | JEM | Suburban |
| 6isty8ight | 2,000 | VivoCity | Fringe |

India



Retail leasing demand remained robust amid a steady flow of new entrants. More retailers are focusing on achieving profitability rather than increasing footprint

SECTOR DEMAND



Coffee & Restaurants

F&B retailers leased a series of large spaces this quarter. They tend to agglomerate multiple formats at the same location, similar to traditional food courts.



Sports

Sportswear remains an active segment, with major international brands expanding further under the franchise model. Strong online sales have not deterred bricks-and-mortar demand.



Mid-Range Fashion

Fast fashion and affordable apparel retailers continue to perform well and expand.



Gaming & Entertainment

Entertainment is a growth category, with strong demand from multiplex cinemas, fitness centres and family entertainment.



Department Stores

Homegrown department stores are in expansionary mode, with new openings in Chennai, Hyderabad, Mumbai and Pune.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▲

Supply ▲

Vacancy ▶

- International fashion retailers will continue to expand across metro cities as well as enter new tier I and tier II markets.
- With REITs in the offing, the focus on developing investment grade properties is likely to redefine the retail segment.
- Retailers are set to experiment with more creative formats including digitalisation.



EMERGING TRENDS

Many leading brands are moving towards omni-channel retailing. This includes bricks-and-mortar stores and e-commerce platforms to provide consumers with a unified experience and also incorporates social media.

Landlords are implementing shorter lease terms of five to six years as opposed to the traditional nine years as they seek to create a more dynamic tenant mix and remain competitive in the long run.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|-----------|------------------|------------------|-----------|
| Decathlon | 25,000 | Wakanpada | Mumbai |
| H&M | 19,000 | Viviana Mall | Mumbai |
| Max | 12,093 | Mall of Amritsar | New Delhi |
| Hamley's | 1,400 | Khan Market | New Delhi |

Australia



The retail trade environment showed signs of improvement as landlords and tenants focused on adapting their operations to stay competitive

SECTOR DEMAND



Healthcare/
Beauty/
Cosmetics

Service-based retailers in the health and beauty and finance and banking sectors drove demand this quarter, supported by strong consumer demand for personal services.



Luxury

Demand from luxury retailers was steady, aided by a willingness among many landlords to add retailers from this category into their portfolios.



Mid-Range
Fashion

Performance in the fast fashion sector was mixed. Some operators are reporting strong sales and gearing up for further expansion across Australia and Pacific, while others are struggling to generate sufficient turnover rents amid lacklustre sales and changing consumer preferences.



Others

Traditional supermarket operators continued to roll out new store formats to consolidate market share. New offerings include smaller shops and stores with drive-through service areas allowing shoppers to collect groceries from their vehicle.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▶

Vacancy ▶

- Recent amendments to land-use definitions in New South Wales will enable a wider range of retailers to operate within large format retail centres.
- Shopping centre landlords will continue to boost the range of experience, service and F&B retailers in their portfolios.



EMERGING TRENDS

Regional shopping centre landlords continue to reposition their centres by incorporating a higher proportion of dining and entertainment facilities in a bid to increase foot traffic.

Large retailers across a range of categories are pursuing a more strategic approach by adjusting store portfolios. Measures include shuttering underperforming stores.

SELECTED LEASING TRANSACTIONS

| TENANT | SIZE (SQ FT GFA) | PROPERTY | LOCATION |
|------------------|------------------|---------------------|-----------|
| Victoria Secrets | 10,764 | Chadstone | Melbourne |
| Louis Vuitton | 10,764 | Chadstone | Melbourne |
| JD Sports | 7,000 | Chadstone | Melbourne |
| JD Sports | 6,500 | Melbourne Central | Melbourne |
| Sephora | 4,100 | Westfield Doncaster | Melbourne |

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