Q3 2019

Asia Pacific Retail Trends

Leasing market remains quiet

Prime locations perform well but secondary areas suffer

Retail sales growth slows further

F&B continues to drive demand

Luxury brands active in Japan, Korea and Australia

Outlook for 2020 is cautious

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Overview

Overall leasing demand was subdued. While most brands remained interested in prime locations, secondary space continued to suffer.

- Retail sales growth in major markets slowed further amid the uncertain economic outlook. Hong Kong was the worst performer, suffering a 18% y-o-y decline in July to September 2019.
- The weaker RMB – which has weakened by 2.7% against the USD so far this year - continued to inhibit spending by Chinese tourists across the region.
- F&B expansion remained steady in major markets over the quarter, led by coffee and tea shops, dessert outlets and casual dining establishments.
- Luxury brands were relatively active in Japan, Korea and Australia in seeking options outside department stores.
- Fast fashion demand was mixed, with Uniqlo entering India but Forever 21 withdrawing from several markets following its bankruptcy filing.
- Department stores continue to struggle across the region, with further closures in several markets announced this quarter. Some landlords are looking to replace them with entertainment-oriented retailers and coworking operators.
- The outlook for 2020 is cautious with developed markets expected to see sluggish economic growth and consumer spending.

China

Leasing demand was steady, driven by strong demand from F&B. However, retailers in a few other categories turned more cautious amid slower retail sales growth.

SECTOR DEMAND

Coffee & Restaurants

F&B was a strong driver of leasing demand, supported by government policies in various cities promoting the “night economy” by allowing restaurants to extend opening hours.

Luxury

Strong sales performance this year has fueled confidence among luxury groups. Tier I cites saw several relocations and upgrading moves while lower tier cities such as Xiamen and Xian saw some new entrants.

Department Stores

Department stores continue to struggle, with further closures announced this quarter. Many spaces formerly occupied by retailers in this category have been converted into coworking and office space. However, this trend is now slowing and the remaining players are expected to focus on upgrading their supply chain and retail offering.

Others

Electric vehicle manufacturers were previously a strong source of leasing demand but most retailers in this segment are no longer as active in opening new flagship stores due to slowing automobile sales.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▶
Supply	▲
Vacancy	▶

- Steady consumption will continue to ensure a stable retail sector. The cut to individual income tax effective in October 2018 generated an extra RMB 340 billion of disposable income in the first three quarters of this year.
- The depreciation of the RMB – which has weakened by 2.7% against the USD so far this year – will also encourage consumers to spend more money domestically.

EMERGING TRENDS

Earlier this year authorities in several cities including Beijing announced a scheme called “first store economy” to provide well known retailers with a cash subsidy of up to RMB 5 million if they open a flagship store in a specific area to generate new growth in consumer spending.

Encouraged by city governments' promotion of local Chinese brands, domestic retailers are seeking high-profile high street locations to strengthen their brand image.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Roger Vivier	2,700	China World Mall	Beijing
Maison Kitsune Café	3,000	Xintiandi	Shanghai
Golden Goose Deluxe Brand	1,938	The MixC Shopping Mall	Shenzhen
Gap	5,400	Hengbao Plaza	Guangzhou

Hong Kong

Leasing activity was sluggish as most retailers remained cautious towards expansion or relocation amid ongoing socio-political unrest.

SECTOR DEMAND

Others

Demand from retailers selling daily necessities, especially supermarkets in neighbourhood areas, remains stable. Fitness centre operators also turned more active in seeking large spaces in desirable locations.

Healthcare/ Beauty/ Cosmetics

The period saw a few leasing deals signed by personal care retailers including SaSa and Dr. Plant in Mong Kok and Goutal in Causeway Bay. However, some tourist-oriented pharmacies have pulled out from negotiations amid social unrest.

Mid-Range Fashion

Underperforming retailers in this category continued to withdraw from the market. Jack Wills exited Hong Kong after being taken over while Forever 21 exited the market due to its global closure. However, GAP committed to a new 15,000 sq. ft. store in Tsim Sha Tsui.

Luxury

Luxury brands were quiet and retain their current strategy of either maintaining their existing footprint or downsizing. Several brands have requested landlords provide them with rental reductions.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▼

Supply ▶

Vacancy ▲

- Despite the upcoming Christmas and New Year holiday period, consumption is expected to remain subdued for the remainder of the year.
- Overall high street rents are expected to decline by another 5 – 10% over the remainder of 2019 with a further correction likely after Chinese New Year.

EMERGING TRENDS

Although recent quarters have seen several international retailers withdraw from Hong Kong, there remains some interest from overseas groups keen on establishing a presence in the city by taking advantage of landlords' weaker position by securing prime locations at attractive rents.

Given the present dynamics influencing the market, short-term leases and pop-up stores will remain the main source of leasing activity for the remainder of the year. Very few long leases are likely to be signed until there is a significant improvement in the local social environment.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Gap	15,000	Albion Plaza	Tsim Sha Tsui
Dr. Plant	5,400	132 Sai Yeung Choi Street South	Mong Kok
Chow Sang Sang	3,100	Mirador Manson	Tsim Sha Tsui
Goutal	3,000	Fashion Walk	Causeway Bay

Japan

Consumer sentiment hit a record low in September but retail leasing demand was steady and continued to be driven by drugstores, luxury and F&B.

SECTOR DEMAND

Healthcare/ Beauty/ Cosmetics

Drugstores remained the strongest demand driver but leasing activity slowed this quarter. Tokyo, Osaka and Nagoya all saw new openings but other cities reported some operators terminating leases and closing stores.

Luxury

Luxury retailers continued to expand. A few groups were observed to be trying to relocate to more prime locations and open larger stores.

Coffee & Restaurants

F&B demand was strong, led by bubble tea operators targeting local customers. The period also saw enquiries from Chinese tea brands seeking direct entry and not via the usual route of forming joint ventures with local partners.

Mid-Range Fashion

Fast fashion retailers were quiet. A few retailers in this category are reportedly aiming to reduce their total number of stores while increasing the average size of each store as a means to improve profitability amid growing pressure from e-commerce. A few domestic fashion brands closed alongside with the shuttering of department stores in regional cities.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▶
Supply	▲
Vacancy	▼

- The effect of the hike in the consumption tax rate to 10% from 8% in early October may have a negative impact on consumption in the coming quarters.
- Many retailers have already opened new stores ahead of the 2020 Olympic Games and further large scale expansion is not anticipated.

EMERGING TRENDS

Japan's trade dispute with Korea has not really impacted Korean brands operating in Japan as there are only a small number of such companies and Japanese consumers are not participating in any boycott of Korean goods.

Secondary locations are gaining attention from retailers due to the lack of space in prime areas. The opening of new hotels in non-core areas in recent quarters has also improved footfall in such locations.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Tiger Sugar	5,340	COXY188	Omotesando, Tokyo
Matsumoto Kiyoshi	3,560	Koyasu Building	Shibuya, Tokyo
Longchamp	2,140	iliv	Ginza, Tokyo
Danton	720	JY Omotesando Building	Omotesando, Tokyo

Korea

Duty free sales continue to perform well but the period saw slower economic growth and weaker consumer sentiment. Demand was generally quiet.

SECTOR DEMAND

Coffee & Restaurants

Chained coffee brands opened more drive-through stores in satellite cities this quarter while Chinese hotpot outlets continued to expand rapidly.

Luxury

Recent quarters have seen several luxury brands end their partnerships with local vendors in favour of direct entry.

Sports

Sporting goods retailers were active in Myeongdong during the quarter and are now paying the highest rents in the area in a few cases.

Healthcare/ Beauty/ Cosmetics

Local cosmetics brands are not expanding as aggressively as before as tourists now have access to many of their products in their home market. Domestic groups are therefore focusing on overseas expansion. The period also saw Sephora open its first store in Seoul.

Department Stores

Several department store operators are undergoing renovation exercises and are increasing their proportion of luxury brands targeted at male customers as well as being more selective with the brands they carry to boost sales.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▶
Supply	▲
Vacancy	▶

- Demand from F&B is expected to stay strong but other trades are likely to be quieter.
- Rents will remain stable along major and traditional high streets and no downward correction is anticipated.
- The trade dispute with Japan will continue to result in retailers from that market closing stores.

EMERGING TRENDS

The sluggish domestic economy has prompted many large retail groups to embark upon a shift in strategy. Several hypermarts, such as Lotte Shopping, have opted to inject assets into REITs, while E-mart is selling ten of its self-owned assets as part of a sale-and-leaseback scheme.

Several retailers are adopting omnichannel strategies and O2O business models to diversify sales channels and attract new customers.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Decathlon	30,139	Starfield Hanam	Hanam
Jumbo Seafood	10,656	Gangnam	Seoul
Max Mara	3,229	Cheongdam	Seoul
Levi's	--	Garosugil	Seoul
Dolce & Gabbana Beauty	--	Lotte World Mall (Jamsil)	Seoul

Singapore

Leasing activity slowed this quarter amid weakening retail sales data and the deteriorating economic outlook.

SECTOR DEMAND

Coffee & Restaurants

F&B remained very active as consumers are still willing to spend on food. However, the market is very saturated and recent months have seen several closures as well as new openings.

Mid-Range Fashion

Fast fashion retailers displayed mixed demand with Uniqlo expanding but other groups consolidating and/or closing stores.

Gaming & Entertainment

Retailtainment-related trades continued to perform well, with indoor playground operators seeking further opportunities to enter or expand following the success of Kidztopia and Superpark.

Sports

Activity from sporting goods retailers included Decathlon taking over an anchor space occupied by department store Metro Centrepoint.

Others

The period saw several bookstore closures with Times Bookstore shuttering its outlet in Centrepoint and MPH announcing plans to close its branches in Raffles City and Parkway Parade and re-enter with a smaller lifestyle-oriented footprint.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▶
Supply	▼
Vacancy	▲

- The market will remain two-tiered with resilience in prime space and weakness in secondary malls and corridors.
- Prime rents could come under pressure in the coming quarters as retail sales are unlikely to improve any time soon.

EMERGING TRENDS

Tenants are increasingly selective and are more reluctant to expand considering the economic slowdown and less favourable retail climate. However, good quality prime retail space remains limited and rents remain stable.

The slowdown in leasing activity is also due to the drastic decline in the number of big shopping mall completions following the addition of Jewel Changi Airport and Paya Lebar Quarter.

E-commerce continues to perform well but mainly caters to low-priced items.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Fairprice Xtra	90,000	VivoCity	Fringe
Tsui Wah Restaurant	4,800	The Heeren	Prime
The North Face	2,024	Marina Bay Sands	Prime
Anello	625	Jewel Changi Airport	Suburban

India

Demand was strong across the board as well known international retailers continued to enter and expand across major cities.

SECTOR DEMAND

Mid-Range Fashion

Fast fashion retailers continue to expand rapidly. Uniqlo opened its first store in New Delhi this quarter and is planning two more in the same city. Forever 21 continues to operate in India despite its recent bankruptcy while Indian retailers in this category are also performing well.

Coffee & Restaurants

F&B remains an active sector with Starbucks and homegrown café brands continuing to expand their footprint along with major fast food brands. Casual dining restaurants and pubs have been opening at a steady pace across the country.

Sports

Sporting goods brands are displaying steady demand with recent new openings including Decathlon's flagship at Mall of India, Noida. Major brands in this category continue to expand their footprint.

Gaming & Entertainment

There is strong demand from cinemas and other entertainment operators but expansion is being inhibited by the lack of suitable supply to meet their specific technical requirements.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent	▲
Supply	▲
Vacancy	▶

- The coming months will see more new entries by international retailers but limited vacancy in prominent malls means space availability will remain a concern across most cities.
- New retail categories will continue to emerge. Examples include cloud kitchens and variety stores such as Miniso and Yoyoso, which are gaining traction across India.

EMERGING TRENDS

The direct entry of foreign brands is set to pick up following the relaxation of local sourcing regulations, with overseas single brand retailers now supposed to procure 30% of their products from India, irrespective of goods being sold locally or exported.

Restrictions on single brand international retailers engaging in online sales have also been eased. Trading online will now be permitted prior to opening brick and mortar stores, subject to the condition that the entity opens brick and mortar stores within two years from commencing online retail sales.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Go Sport	15,000	Seawoods Grand Central	Mumbai
Toys R Us	10,800	Inorbit Mall - Vashi	Mumbai
Polo Ralph Lauren	3,700	Ambience Mall - Gurgaon	New Delhi
Hugo Boss	2,500	Ambience Mall - Gurgaon	New Delhi

Australia

Consumer sentiment remained weak despite several interest rate cuts this year and a slight recovery in the housing market. Retail leasing demand was subdued

SECTOR DEMAND

Healthcare/ Beauty/ Cosmetics

Cosmetics and personal care brands displayed strong demand in major cities across the country. Many groups are now seeking prime sites instead of concessions in department stores and are also increasingly open larger size shops.

Luxury

Leasing demand from luxury retailers was solid. New entrants continue to explore market entry but are highly selective about location. A few larger established operators are expanding.

Others

Service related stores such as retail banks were active in major shopping districts this quarter, especially for 50 sq. m. – 100 sq. m. spaces for cash and credit card related services.

Coffee & Restaurants

Small F&B operators still have a healthy appetite for expansion but the coming quarters may see some closures of big group restaurants.

Mid-Range Fashion

Demand from fashion retailers was mixed with a few brands shuttering stores and exiting the market this quarter.

6-MONTH OUTLOOK & OPPORTUNITIES

Rent ▶

Supply ▶

Vacancy ▶

- Weak consumer spending on household goods will continue to weigh on retail leasing demand.
- Landlords will have to turn more realistic to attract tenants and must offer more flexible lease terms.
- The wave of online retailers and new market entrants requires retailers to adapt and innovate to protect market share.

EMERGING TRENDS

Discount department stores continue to struggle, with Big W planning to close around 30 stores over the next three years, with the first few in Sydney's south-west shuttering during the quarter. Landlords are struggling to find alternative options to fill up vacated space.

More landlords are willing to accept flexible and shorter lease terms as they adjust to weaker expansionary demand from retailers.

SELECTED LEASING TRANSACTIONS

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Uniqlo	9,558	Northland	Melbourne
Sephora	7,524	Rundle Plaza	Adelaide
Tommy Hilfiger	2,475	Maroochydore	Brisbane
Patagonia	2,153	Little Collins Street	Melbourne
Fjallraven	1,238	York Street	Sydney

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