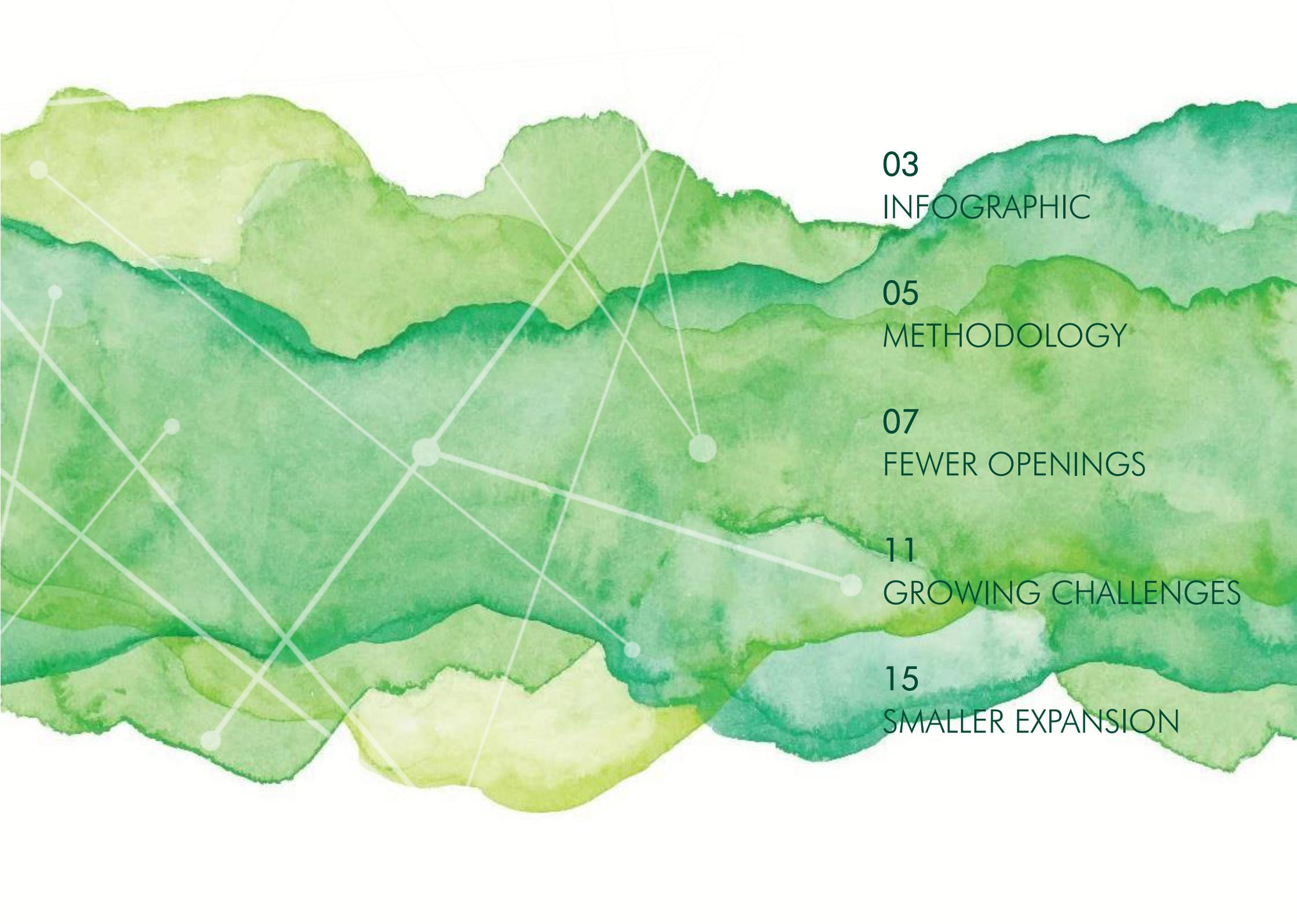




*Retail Science from CBRE*

# HOW ACTIVE ARE RETAILERS IN APAC?

Careful strategic planning  
drives slowdown  
in new store openings



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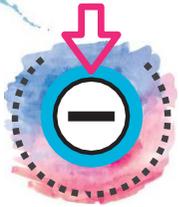
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SMALLER EXPANSION

# HOW ACTIVE ARE RETAILERS IN APAC?

New openings stall amid stronger emphasis on strategic planning

## Fewer Openings

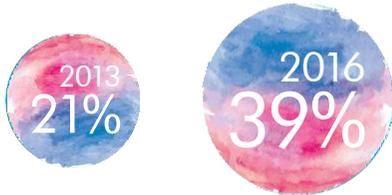
New retail entrants fell by 16% y-o-y in 2016, the first decrease on record



F&B retailers are expanding, led by Asian restaurants

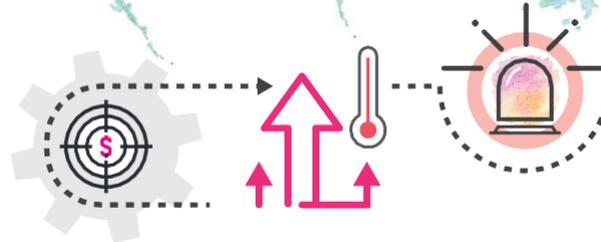


Asia Pacific retailers account for a larger proportion of new entrants

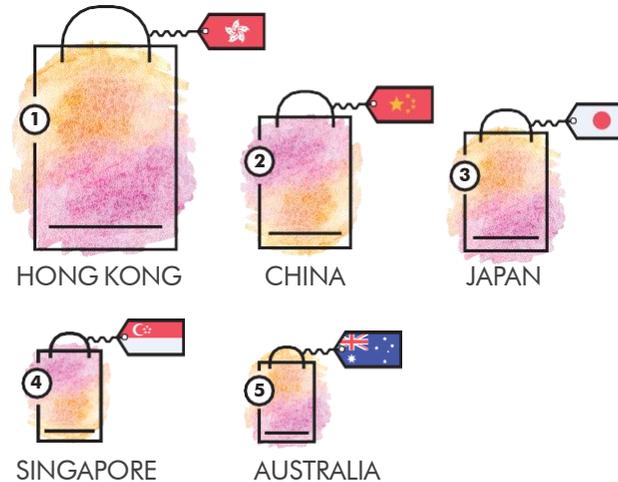


## Growing Challenges

Cost escalation is the biggest threat



## Stronger Focus on Established Markets



## Smaller Expansion

Retailers plan to expand in four countries in 2017, compared to five in 2016



More retailers are investing in social media and in-store analytics



Source: CBRE Research, June 2017.

CBRE RESEARCH

This report was prepared by the CBRE Asia Pacific Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate.

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# INTRODUCTION

Global retailers retain a strong appetite for expansion in Asia Pacific and continue to enter new markets across the region. However, structural changes such as the rapid growth of e-commerce and the emergence of home-grown retailers continue to pose significant challenges to growth. Consumer preferences are changing in tandem with the expansion of the middle class and urbanisation, while rapid advances in technology are forcing retailers to invest in more innovative sales and marketing strategies. These obstacles mean that retailers are no longer assured of the steady organic growth achieved under their previous retail strategies and formats.

How Active Are Retailers in Asia Pacific? 2017 examines retailer expansion in the region over the past year and gauges their intentions to expand in the coming year. It also provides advice to retailers and landlords on how they can refine marketing and real estate strategies to ensure they remain competitive in what is an increasingly challenging marketplace.



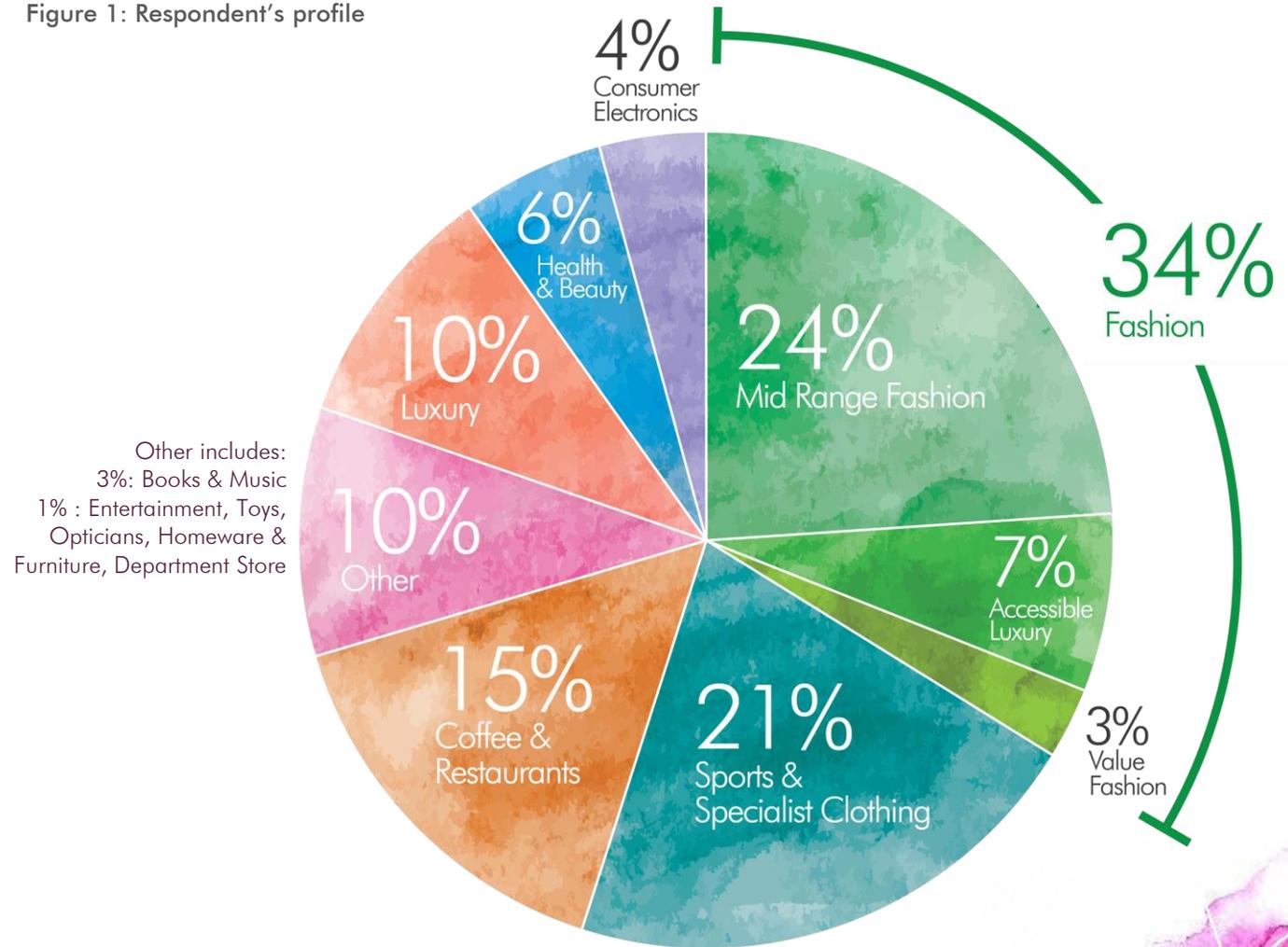
# METHODOLOGY

This report tracks new retail entrants in 26 Asia Pacific cities in 2016. To be counted as a new retail entrant, the retailer must originate from a foreign market; be new to the city; and have a bricks-and-mortar store. Concessions or shops-in-shops are not included. The store has to have opened for trading during the year.

The report also surveys 71 international retailers to gauge their expansion intentions in Asia Pacific for the coming year. Respondents were senior executives responsible for overseeing their brands' regional and / or global real estate portfolio. Major sectors represented included fashion (34%), sports and specialist clothing (21%), coffee and restaurants (15%) and luxury (10%).

Half of multinational respondents were based in western countries and were primarily headquartered in North America (31%) and Europe (24%). Most Asia Pacific respondents were located in Japan.

Figure 1: Respondent's profile



Source: CBRE Research, June 2017.

The background is a vibrant blue watercolor wash that transitions from a deep, dark blue on the left to a lighter, almost white blue on the right. Overlaid on this is a network diagram consisting of several grey circular nodes connected by thin, light grey lines. The nodes are scattered across the left and center portions of the image, with lines crisscrossing between them. The text 'FEWER OPENINGS' is centered horizontally and partially overlaps the network lines.

FEWER OPENINGS

# RETAILER EXPANSION WEAKENS IN 2016

Total new entrants fall for the first time on record

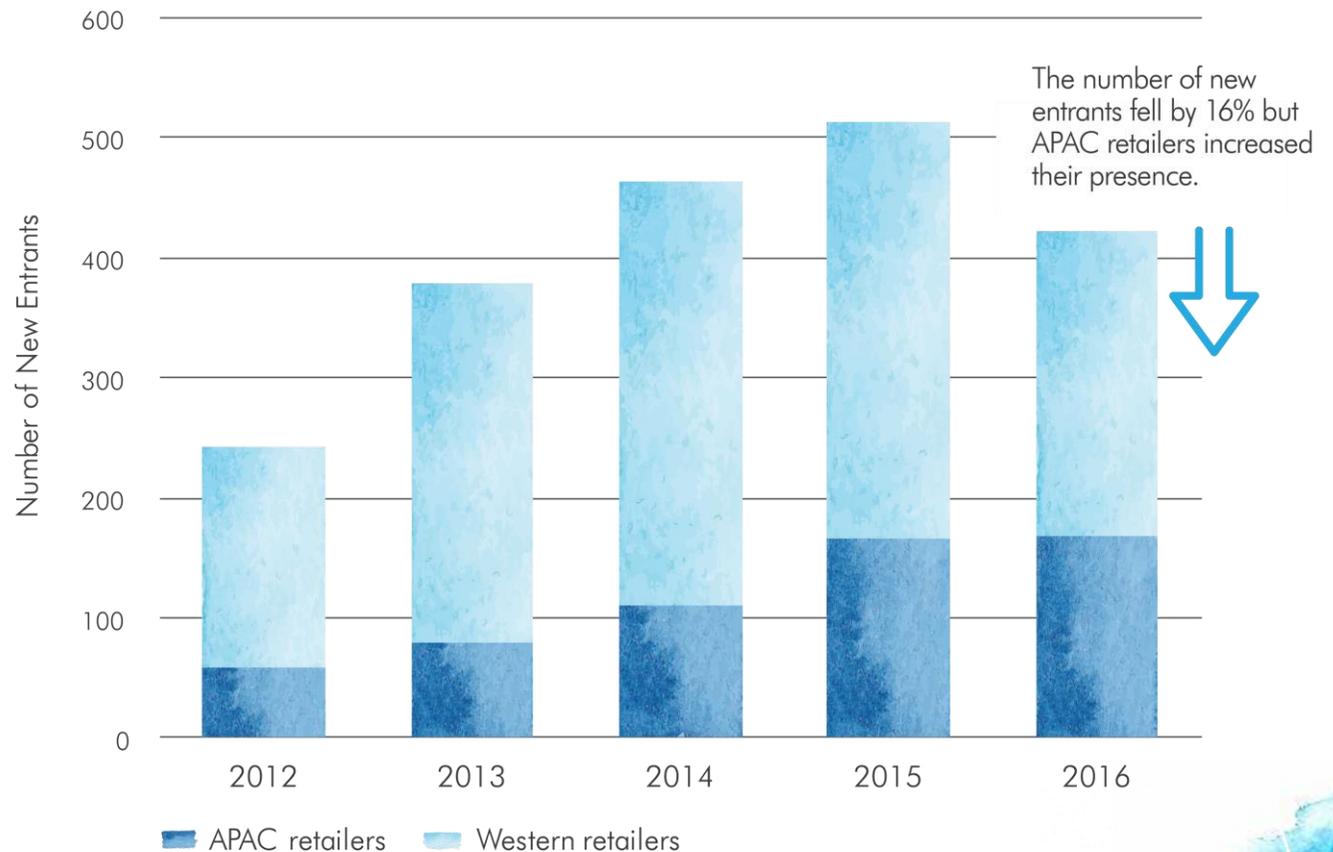
In 2016 the total number of new retailer entrants to Asia Pacific registered the first decline since CBRE research began tracking activity in 2012. A total of 429 new retailers opened stores in the 25 Asia Pacific cities under survey in 2016, a fall of 16% y-o-y.

The decline was primarily due to the slower pace of retailer expansion in Singapore and Taipei, which have both seen sluggish economic growth and weak domestic consumption demand. Retailer expansion in Singapore has been further constrained by the labour crunch, while a slowdown in the growth of Chinese tourist arrivals negatively impacted Taipei.

Guangzhou, Ho Chi Minh City, Mumbai, Melbourne and the gold coast all recorded a sharp rise in retailer expansion over the course of 2016, supported by the completion of new shopping centre supply. Landlords of new shopping centres in Asia Pacific remain keen to introduce maiden brands to differentiate their projects from existing malls and draw shoppers' attention.

Hong Kong, Tokyo and Singapore remained the top three most attractive markets for retailer expansion. However, these cities saw some closures and market withdrawals as several foreign retailers opted to retreat amid lacklustre sales growth and intensifying competition.

Figure 2: Total number of new retailer entrants in Asia Pacific



New Entrants are defined as retailers that are (1) new to the city with a physical store (excluding concession counters or shops in shops); (2) open for trading; (3) an international retailer.

Source: CBRE Research, March 2017.

# ASIA PACIFIC RETAILERS STAY ACTIVE

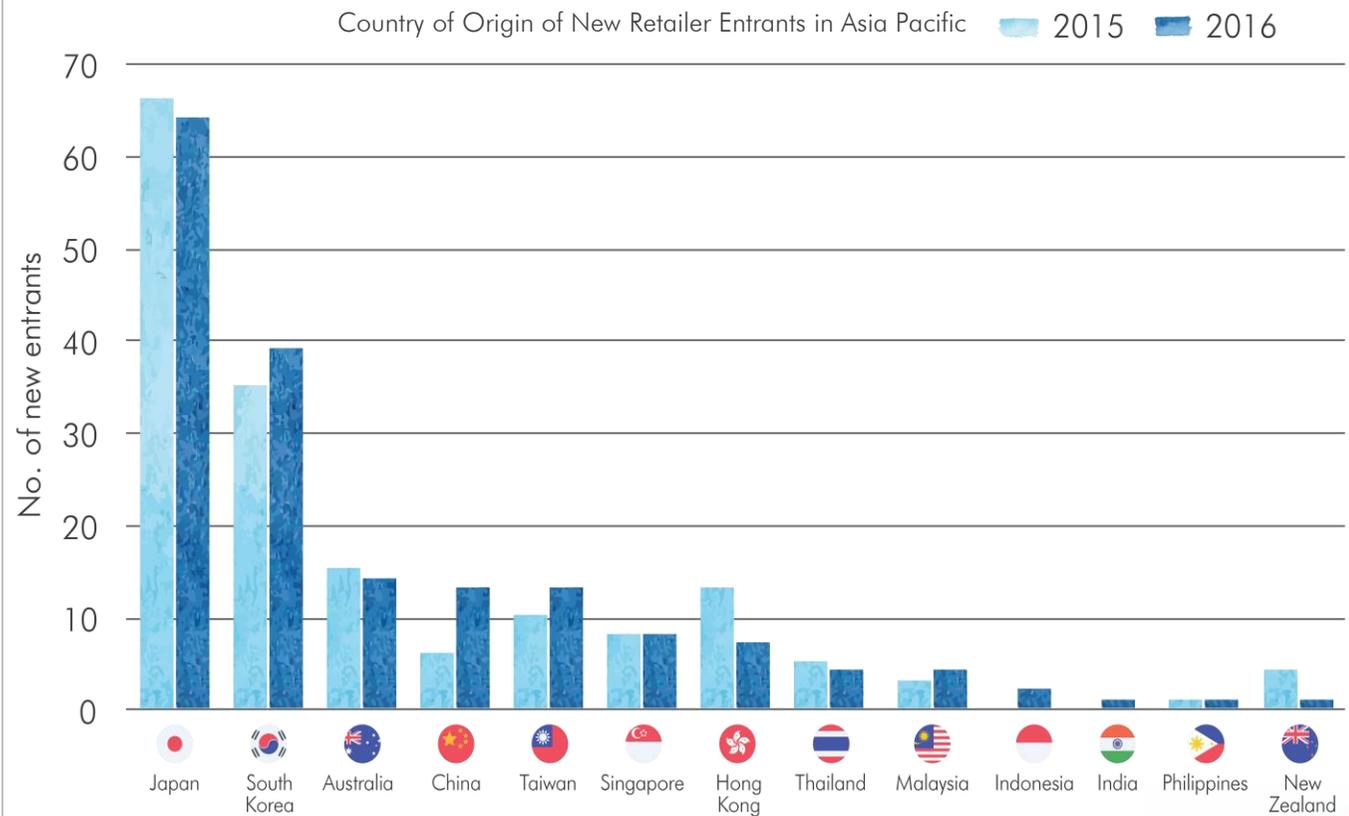
Japanese and South Korean brands expand overseas

Homegrown retailers displayed a stronger appetite for overseas expansion in 2016, accounting for 40% of new retailer entrants recorded during the year. Activity was led by retailers from Japan, South Korea and Australia. Expansion was largely driven by static sales growth and market saturation in their home countries, along with regional shopping centre landlords' demand for new brands.

Over half of new entries by Japanese and south Korean retailers in 2016 involved cafes and restaurants, reflecting strong consumer demand for Asian cuisine and eating out. Activity by Australian retailers was led by apparel, footwear and houseware stores expanding in New Zealand.

Overseas expansion by Chinese retailers was driven by domestic fashion retailers opening more stores abroad as prime retail space in China remains tightly held by international brands. Chinese retailers are also using overseas expansion as a means by which to enhance their status among Chinese consumers.

Figure 3: New retailer entrants in Asia Pacific in 2015 and 2016 by country of origin



New Entrants are defined as retailers that are (1) new to the city with a physical store (excluding concession counters or shops in shops); (2) open for trading; (3) an international retailer.

Source: CBRE Research, March 2017.

# EXPANSION LED BY F&B SECTOR

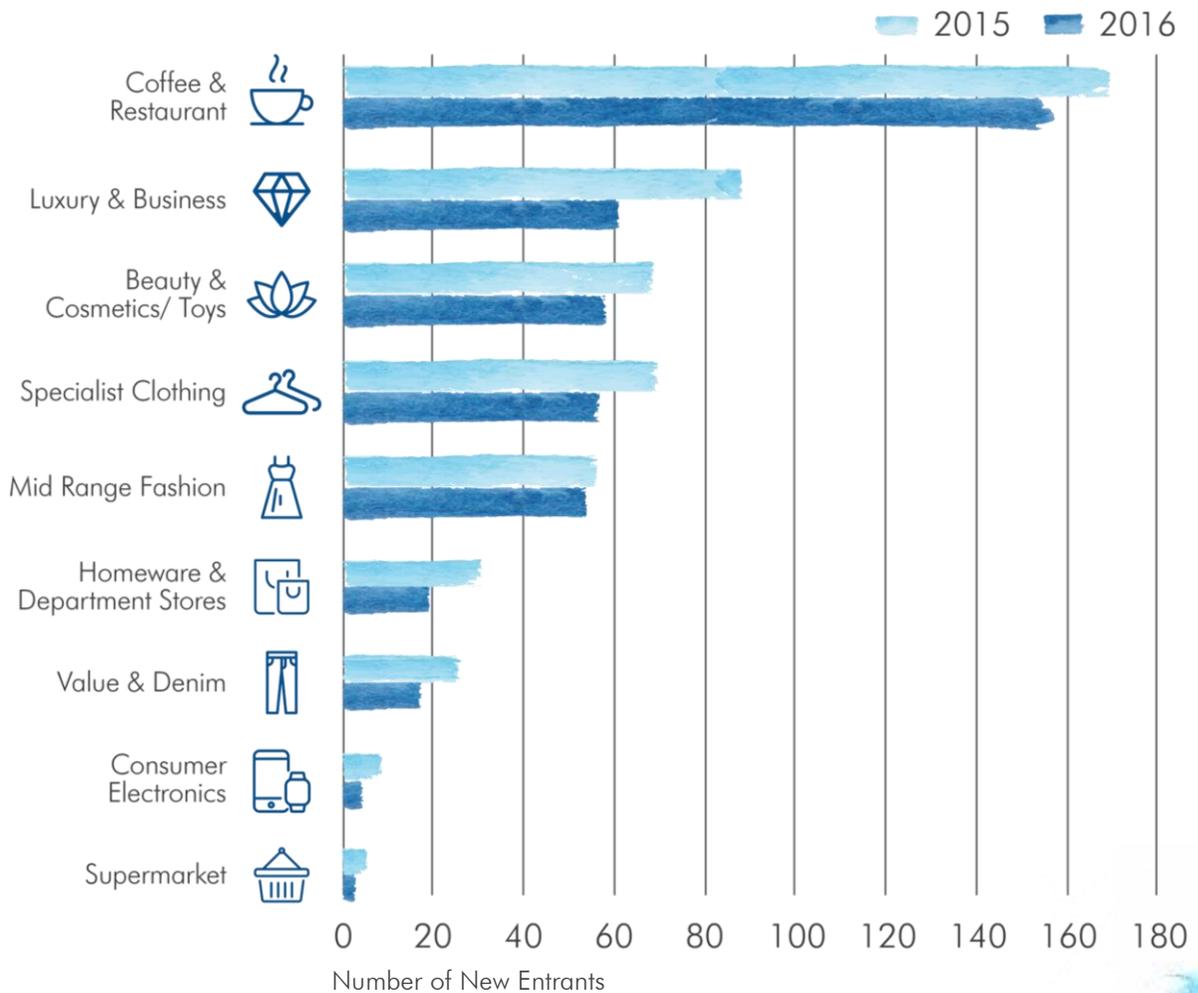
The F&B sector, particularly restaurants and confectionary/pastry shops, continued to drive retailer expansion in Asia Pacific in 2016. F&B retailers accounted for around one-third of new retailer entrants in 2016, a large increase on the 12% recorded when the survey was first conducted in 2012. Japanese, Korean and Taiwanese brands were especially active.

The growth of the F&B sector continues to be supported by consumers' tendency to eat out and landlords' strategy of extending their F&B offering as a way to enhance their retailtainment elements and defend their portfolios against e-commerce.

More landlords are approaching high profile restaurants and F&B groups to open outlets in their malls to boost publicity and the number of visitors. Eating out is increasingly popular among the young, with CBRE Asia Pacific's recent millennial survey finding that those aged between 20-29 eat out on average 9.7 days per month. Many will share pictures of their food on social media, making it a useful promotional tool.

Expansion by luxury brands remained relatively subdued across the region with the exception of Australia, which accounted for 40% of the total new entrants. Luxury retailers opened several new stores in Melbourne and the gold coast over the course of the year.

Figure 4: New retailer entrants in 2015 and 2016 by trade category



New Entrants are defined as retailers that are (1) new to the city with a physical store (excluding concession counters or shops in shops); (2) open for trading; (3) an international retailer.

Source: CBRE Research, March 2017.

The background is a vibrant purple watercolor wash with organic, irregular edges. Overlaid on this is a white geometric network consisting of several interconnected lines and circular nodes. The nodes are positioned at various points, forming a complex web of triangles and other shapes. The overall aesthetic is modern and abstract.

# GROWING CHALLENGES

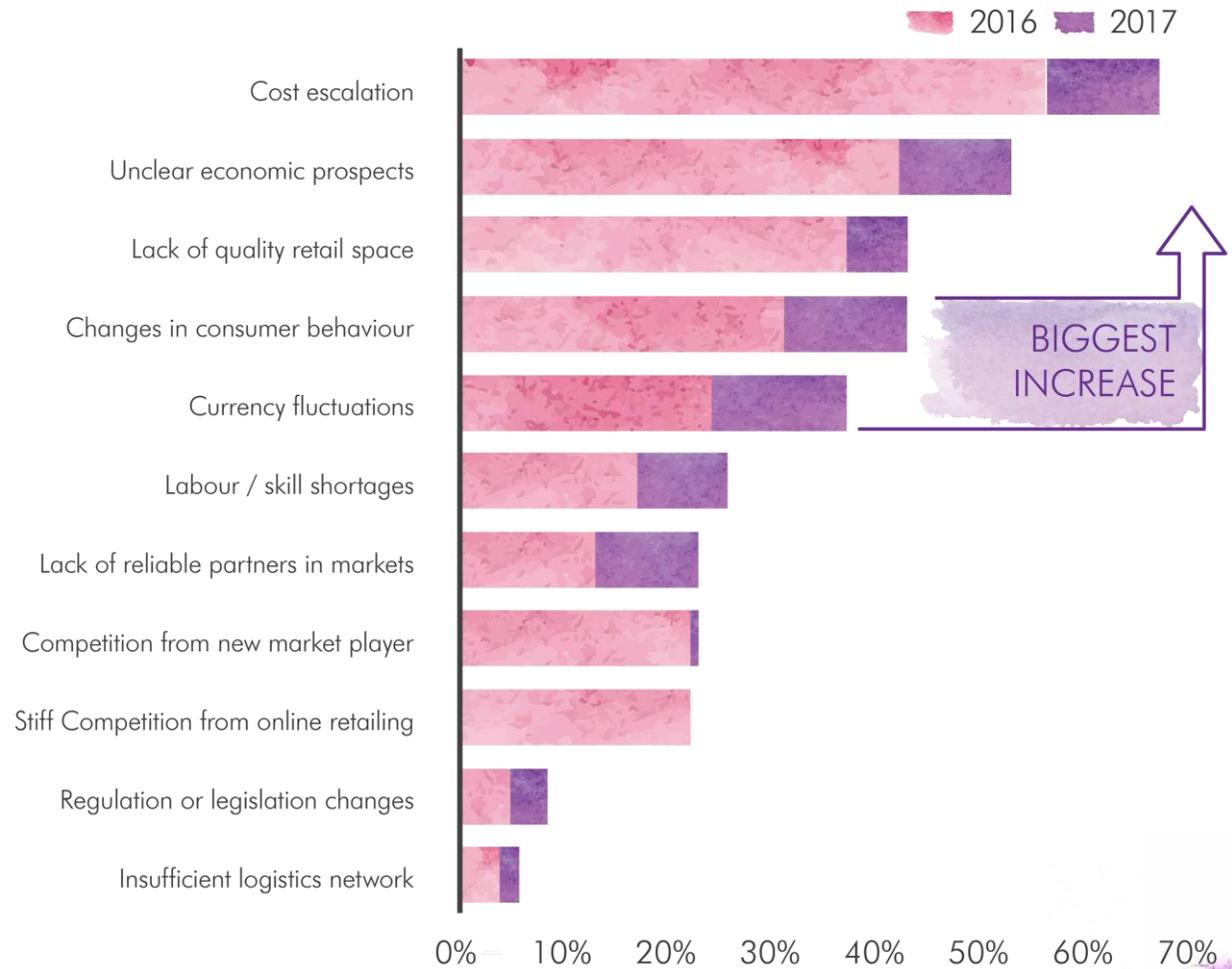
# COST ESCALATION AND UNCLEAR ECONOMIC PROSPECTS REMAIN KEY CONCERNS

Cost escalation and unclear economic prospects remained retailers' foremost concerns for the second consecutive year.

The concern regarding costs came in spite of flat rental growth in most markets with the exception of Hong Kong, which continued to experience a strong correction. Regional inflation remains stable and will continue to do so over the remainder of 2017. However, labour and manufacturing costs have grown significantly on the back of the tight labour market and rising wage. Retailers have found it challenging to pass on these rising costs to their customers due to intense competition and cautious consumer spending.

This year's survey found a significant increase in retailers' concerns around consumer behaviour and currency fluctuations. In today's retail market, consumers are constantly seeking new products and display lower brand loyalty. At the same time, online retail has improved price transparency and prompted retailers to standardise their prices across different markets and channels. E-commerce also poses an additional challenge to traditional retail formats in the form of rapid and low cost delivery.

Figure 5: Major threats to the retail market in 2016 and 2017



Source: CBRE Research, June 2017.

# RETAILERS EMBRACE NEW TECHNOLOGY

Retailers are increasingly utilising technology to monitor and analyse consumer behaviour to help them respond to rapidly changing demand.

Many retailers are integrating their in-store experience with social media platforms as they leverage on this powerful promotional tool. Together with online sales, this involves a large volume of data that retailers need to track.

Almost half of respondents said they already have or intend to introduce customer analytics technology in their bricks-and-mortar stores. Collecting information on who their consumers are; the products they buy and try; and how they navigate around stores, can play a key role in helping retailers improve operational efficiency.

More innovative technology such as augmented reality and beacons is still at a very early stage of adoption.

Figure 6: Technology currently used or planned to be used by retailers in Asia Pacific



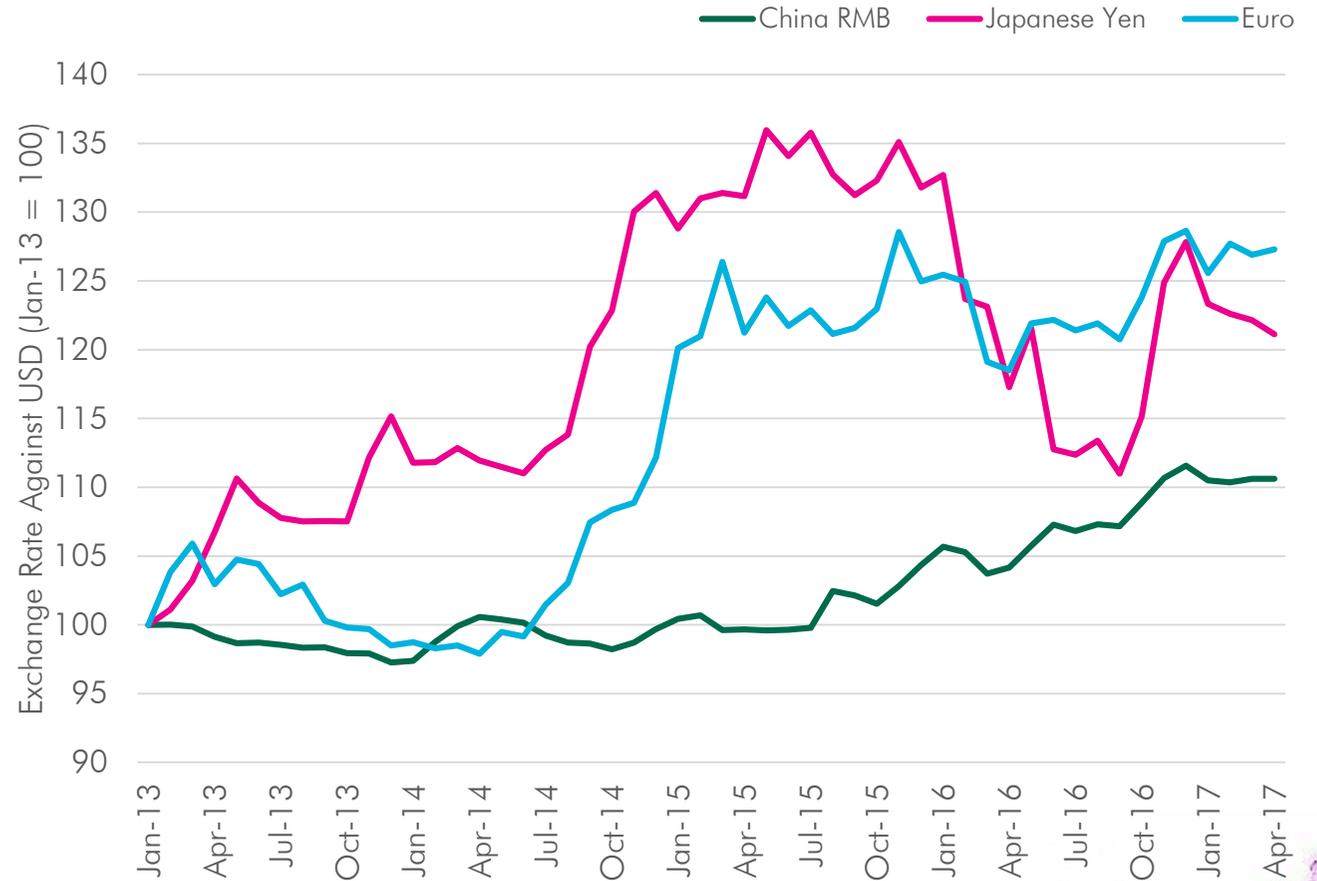
Source: CBRE Research, June 2017.

# EXCHANGE RATES A KEY CONCERN

Currency fluctuations continued to distort the business planning and sales performance of many international retailers in 2016, particularly those in the luxury segment. In response, several retailers increased their prices in Europe while reducing them in china and Hong Kong, to ensure their pricing policy remained globally consistent.

Over the past two years, the RMB has depreciated by around 10% against the USD, thereby making it cheaper for Chinese to shop in their domestic market. This trend helped a number of luxury brands register improved sales in 2016, which in turn supported demand for high quality retail space. However, this came at the expense of several other cities across the region, with Tokyo in particular reporting weaker expansionary demand from luxury brands in 2016.

Figure 7: Exchange rate indices of major currencies against the USD



Source: CBRE Research, June 2017.

The image features a vibrant green watercolor wash as a background, with varying shades from deep forest green to light, almost white, tones. Overlaid on this is a network diagram consisting of five circular nodes connected by thin, light-colored lines. The nodes are positioned at the top-left, top-center, middle-right, bottom-left, and bottom-center. The text 'SMALLER EXPANSION' is centered horizontally across the middle of the image in a clean, white, sans-serif font.

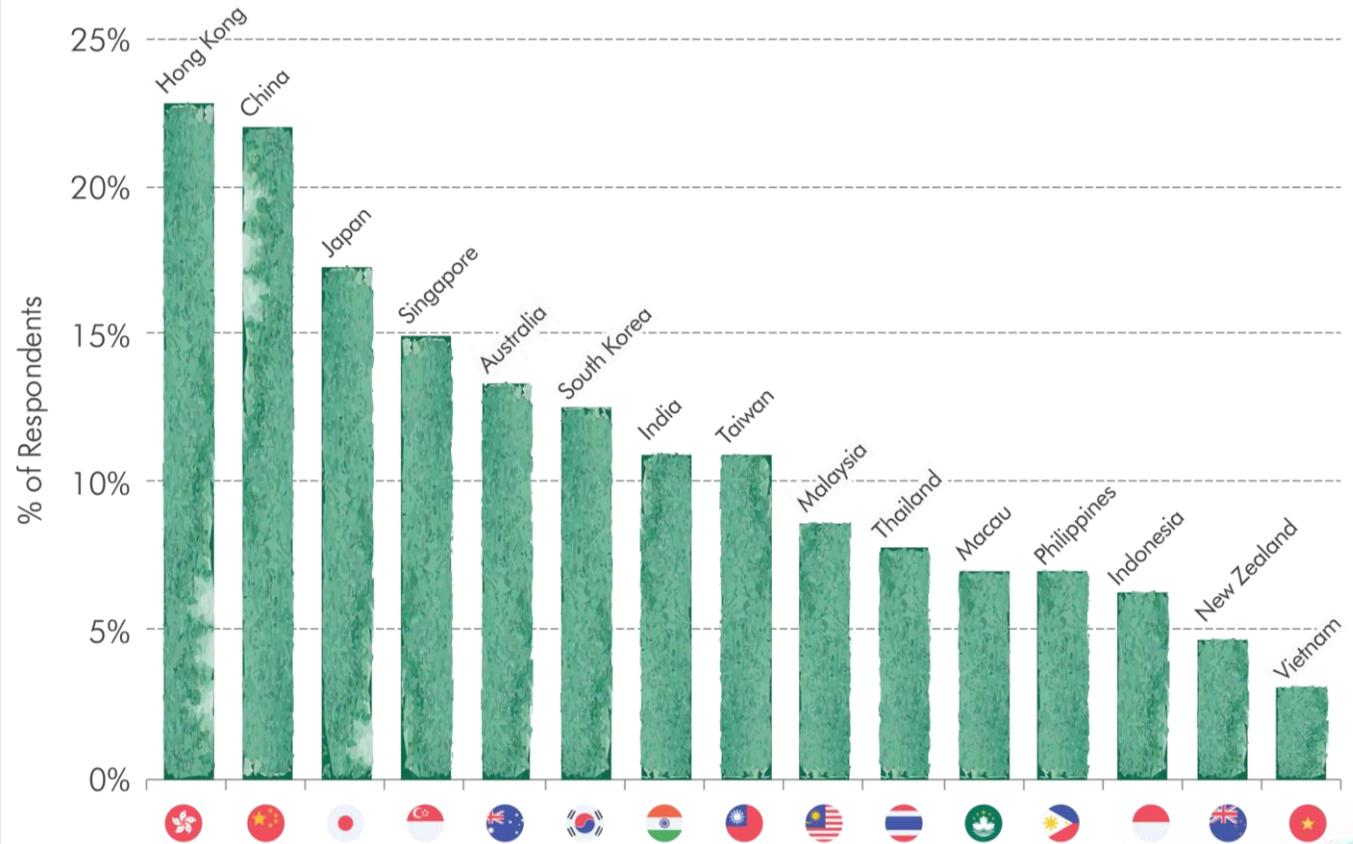
SMALLER EXPANSION

# STRONG FOCUS ON GATEWAY MARKETS

Most retailers expect the retail environment in Asia Pacific to remain challenging in 2017, meaning that they will be more risk-averse and invest in markets with proven sales performance. Developed markets will therefore remain the most popular destination for retailer expansion. Hong Kong is the most popular destination, with more retailers keen to expand in the city now that rents have fallen to more affordable levels. Similar to last year's survey, major markets including China, Japan, Singapore and Australia all rank in the top five.

Retailers' cautious approach towards expansion is set to constrain the breadth and scale of their activity in the coming year. On average, respondents said they plan to expand in four countries this year, compared to five in 2016.

Figure 8: Most popular locations for retailer expansion in 2017



Source: CBRE Research, June 2017.

# RIISING DEMAND TO EXPAND IN EXISTING CITIES

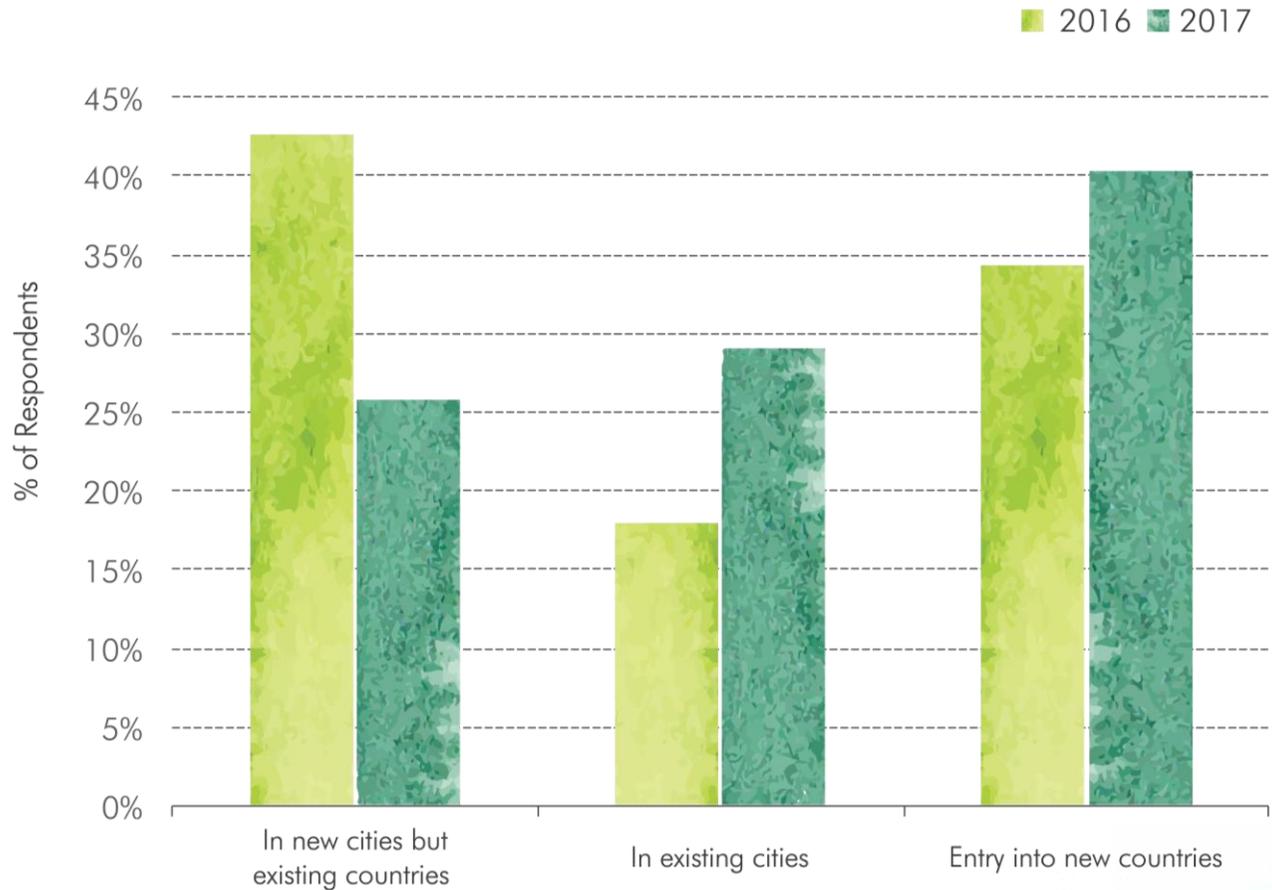
The survey indicates that retailer expansion this year will differ significantly from that in 2016. Far fewer retailers, or 25%, intend to expand to new cities within existing countries, compared to 43% a year ago. At the same time, about one-third of respondents said they plan to expand within existing cities, particularly those which have proven to perform well, a notable increase on the previous year.

This divergence in expansion strategy reflects the risk-averse attitude that has taken hold among retailers. Many groups have observed the experience of luxury retailers, which have consolidated their greater china sales networks over the past two years.

This has led many retailers to adopt a cautious approach focused on building brand awareness in tier I cities, rather than expanding rapidly across the entire country. Several established retailers now open stores in lower tier cities only when their analysis of online sales has confirmed that the location is viable.

Entering new countries will nevertheless remain the foremost channel for retailer expansion in 2017, although activity will be confined to larger markets. Demand will continue to be partially driven by the limited growth opportunities in retailers' home markets, as well as their confidence in Asia Pacific's long term growth potential. The maturing franchise system and shopping centre landlords' desire to introduce new-to-market brands will also provide sound support to retailers' overseas expansion.

Figure 9: Retailers general expansion strategy in Asia Pacific



Source: CBRE Research, June 2017.

## CONCLUSION

Retailers in Asia Pacific anticipate higher risk this year and will turn more conservative towards expansion. There will be a stronger focus on reshaping store networks to be more agile and ensuring they are ready to respond to shifts in consumer behaviour. These trends will negatively impact the number of new retail entrants over the course of the year.

Landlords are advised to take note of retailers' intentions to increase their investment in store technology to enhance their tracking and understanding of consumers. CBRE Research recommends shopping centre landlords strengthen their monitoring of shopper traffic and identify underutilised spaces. Landlords who can effectively harness and utilise big data will gain an added advantage in the battle to secure quality tenants.

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