



Luxury retailers are now shifting their focus towards Asia Pacific. The region so far accounts for a 38.9% share of global luxury store openings, with 18.8% store openings in China for the period January-October 2020

ALBERT CHUA/ THE EDGE SINGAPORE

Creativity, flexibility needed for retailers to survive in recession

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With global travel tied down by ever-changing restrictions and rules, jet-setters have had to find another way to tame their wanderlust. Driven by the boredom of being cooped up too long at home, they have replaced the desire to experience a new country with something more familiar and safe — the purchase of branded goods.

In the first half of 2020, luxury labels in China like Louis Vuitton, Hermès, Gucci and Prada saw a surge in sales as stores reopened in the country after it had emerged from its lockdown. In particular, the Hermès store in Guangzhou raked in a whopping US\$2.7 mil-

lion (\$3.6 million) in sales on the first day it reopened in April, setting a new record.

Sales were also boosted by the fact that consumers could not travel to Paris, Milan and London where they would usually shop for branded goods. So instead, they headed to local stores for a dose of retail therapy.

In response, luxury retailers are now shifting their focus towards Asia Pacific. The region so far accounts for a 38.9% share of global luxury store openings, with 18.8% store openings attributable to China for the period January-October 2020, according to Savills Commercial Research.

While bricks-and-mortar shops of luxury brands have been exempted from retail's gloom, reports of high-street labels shuttering their physical stores made the headlines

throughout 2020. Noteworthy closures in Asia include clothes retailer Esprit and Greek jeweller Follie Follie, which withdrew from all markets in Asia; clothes retailer Topshop, which exited Singapore and Hong Kong; cosmetics brand NYX, which shuttered all stores in Malaysia and Hong Kong; and clothing retailer Esprit which closed down all its stores in Asia except those in China.

Retail trends

This year, with vaccination programmes being rolled out in major countries, there is the possibility that travel could resume. This, in turn, would boost discretionary spending. But "to move the needle on tourism, there is also a need for a recovery in Malaysia and Thailand, as Chinese tourists seldom bank on Sin-

gapore as a sole destination, but usually visit these three countries as a package," cautions Desmond Sim, head of research, Singapore and Southeast Asia, CBRE.

In this context, he expects "the recovery of the retail market to be a long-drawn process".

Closures and consolidations are also expected to continue well into the year. But while Covid-19 has accelerated the rate at which physical stores in Asia Pacific have been losing ground to online retailers, this does not mean all hope is lost.

For one, consumer demand exists, although it now shows up differently. Overall consumer spending in Asia Pacific has also been growing rapidly. A recent study by management consulting firm Bain & Company showed that

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SAMUEL ISAAC CHUA/THE EDGE SINGAPORE



Small-time brands have the option of renting shorter and more flexible leases at Funan mall's retail pods, which are dedicated open spaces inside the shopping centre (File photo taken at Funan's mall reopening in June 2019)

ALBERT CHUA/ THE EDGE SINGAPORE



At Singapore's Jewel Changi Airport, the mall secured some companies as naming rights partners for some of its major attractions, which includes the HSBC Rain Vortex (pictured)

ALBERT CHUA/ THE EDGE SINGAPORE

CBRE RESEARCH, SEPTEMBER 2020



Shoppers at Paragon mall during Phase Two reopening of Singapore’s ‘circuit breaker’ lockdown, which lasted from June 19 to Dec 28, 2020

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the region now accounts for about three-quarters of global retail sales growth, which means that “conventional retail’s shrinking share applies to a rapidly expanding pie,” highlights the Urban Land Institute (ULI) in a joint report with PricewaterhouseCoopers (PwC). In fact, market research firm eMarketer estimates Asia Pacific accounted for 62.6% of all global online sales last year.

The pandemic also turned consumers to e-commerce. A report by Google, Temasek and Bain & Company estimates that some 40 million people came online for the first time in 2020 across six countries in Southeast Asia: Vietnam, Thailand, the Philippines, Malaysia, Singapore and Indonesia. Correspondingly, of the new consumers, 34% acquired electronics, 30% purchased apparel, 32% bought beauty products, while 47% purchased groceries online.

Furthermore, spending at some malls did, in fact, increase. During Singapore’s Phase Two reopening of retail businesses, suburban retail malls recorded an 8% increase in spending compared to pre-pandemic levels, according to findings from the Asia Competitiveness Institute. “Weekday footfall traffic has also diverted towards the suburban malls given their proximity to residential areas,” Wong Xian Yang, associate director of research at Cushman & Wakefield, tells *The Edge Singapore*.

Other consultants reached out to have described this segment of malls as “resilient” and showing “growth”. In an Asia Pacific survey conducted by CBRE, landlords of suburban retail properties held a more upbeat outlook as spending on essential items persisted even through downturns.

However, malls in the central areas have been hit by a double whammy, as the adoption of remote working kept potential spenders at home even as the ban on tourist travel remained in place.

The rental performance of shopping malls were also affected by the drop in footfalls. For the whole of 2020, Cushman & Wakefield estimates that retail rents in Singapore fell around 7% to 10%, while prime suburban retail spaces suffered a smaller rental decline of around 3% to 5%. In 4Q last year, CBRE observes that prime suburban rents declined by 0.5% y-o-y compared to rents in Orchard, which fell 7.9% y-o-y, while rents in city-fringe areas declined by 12.9% y-o-y.

This year, consultants say retail rents are unlikely to be affected by upcoming new retail supply as this is comparatively scarce, with some 0.4 million sq ft of retail space expected to be completed over three years. This is significantly lower than the five-year historical average of 1.37 million sq ft that came onto the market from 2015 to 2019, notes CBRE’s Sim.

Some of the developments that are estimated to be completed this year include Grantral Mall @ Macpherson; the retail component of

integrated development CapitaSpring; and I12 Katong Mall, which will reopen after upgrades.

More personalisation, creativity

Due to higher competition, mall operators have been creative when it comes to engaging crowds. ULI observed that malls in Asia Pacific are now “reducing the number of branded stores, adopting more active and meaningful programming, and embracing shops that target local audiences”. This is in line with the stronger performance of suburban malls in Singapore that serve a local catchment.

Promotions, ULI says, have also taken on a “greater focus on creating a sense of place rather than serving as a pathway to extract tourist dollars”. One interviewee highlighted in the report said of retail operators, “They are now thinking more in terms of town centres than malls. They are still called malls, but there’s this idea that you’re an active curator, more like a town mayor, ensuring you get a diversity of audiences coming through on a far greater basis.”

The historical trend of favouring larger shopping centres has also been replaced by a preference for a higher number of smaller, geographically distributed facilities, adds ULI. Malls with a smaller floorplate have a greater advantage at personalising their services and stores to fit niche demand, which spurs competition.

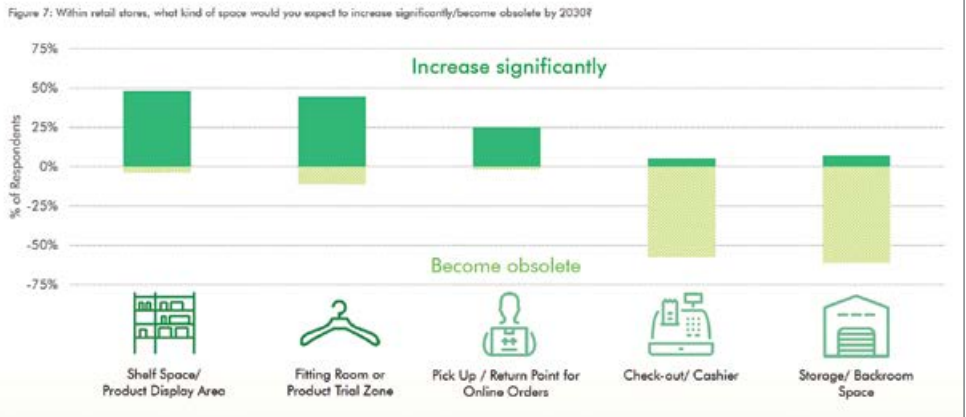
The general consensus is that experiential retail will grow to command a larger slice of the pie in physical malls. Consultants largely expect future retail demand in shopping centres to be driven by activity-based tenants such as F&B, beauty and wellness, and entertainment.

Leasing demand also attests to this. In 3Q last year, brands that took up retail space in Singapore included sports retailer Decathlon; athleisure store Footlocker; burger franchise Shake Shack; and tech retailer Apple (see table).

However, this does not mean the experiential retail segment was sheltered from the ravages of the pandemic. Locally, businesses like family attraction KidZania shut its 81,000 sq ft interactive attraction park on Sentosa Island last June. SuperPark Singapore, one of the biggest indoor playgrounds here, also closed down in October. That same month, homegrown cafe chain Bakerzin also shuttered its five stores after operating for 22 years.

In the near future, omnichannel strategies, which integrates online and offline retail, are expected to be more widespread. Here, ULI suggests landlords will need to find creative ways to monetise retailers’ sales that are taking place at least partially online. The idea is that physical stores function as showrooms, allowing visitors to try on products, collect their purchases or return them, which would contribute to sales. If a buyer decides only to buy the product online after

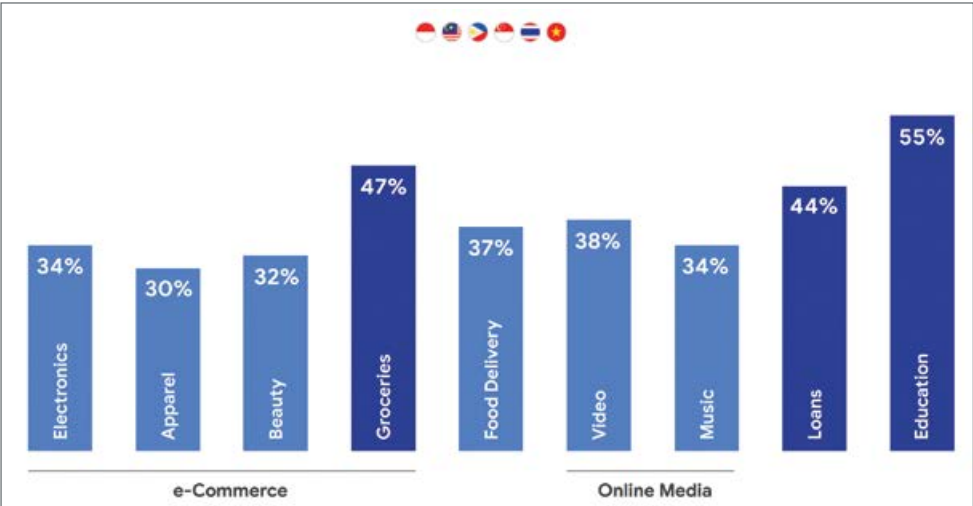
The store of the future



Most retail occupiers, developers and investors surveyed by CBRE expect cashier or check-out areas and backroom spaces in retail stores to be obsolete by 2030

GOOGLE, TEMASEK AND BAIN & COMPANY

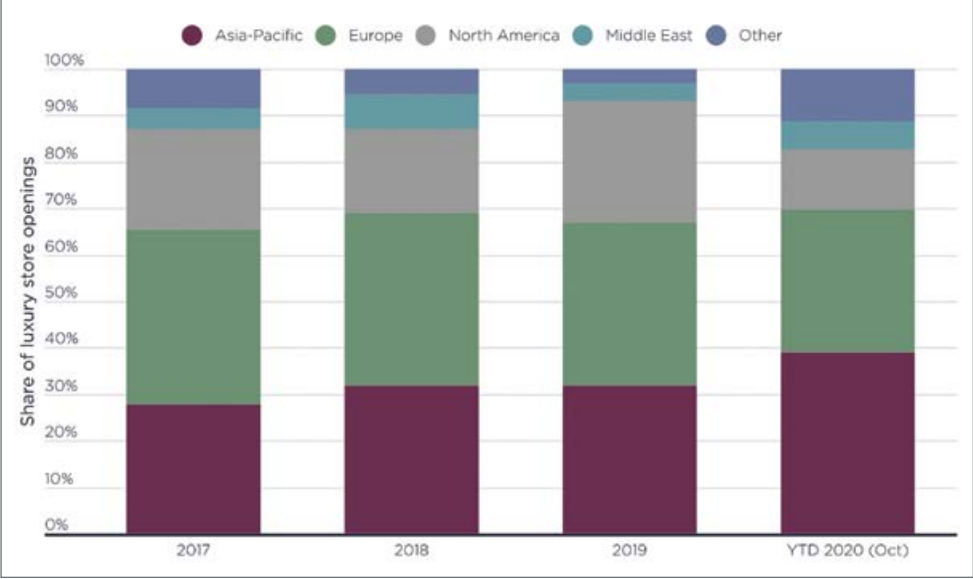
% of new digital consumers out of total service consumers (Southeast Asia aggregate)



Across six South East Asian countries, 47% of new digital consumers came online in 2020 to buy groceries

SAVILLS RESEARCH

Share of luxury store openings by region



CBRE RESEARCH; CEIC; GOVERNMENT ANNOUNCEMENTS, NOVEMBER 2020

Selected leasing transactions in 3Q2020

TENANT	SIZE (SQ FT GFA)	PROPERTY	LOCATION
Decathlon	34,444	Centrepont	Singapore
Footlocker	25,000	Orchard Gateway@Emerald	Singapore
Apple	17,000	Marina Bay Sands	Singapore
Shake Shack	170 seats	Suntec City	Singapore

visiting the store, the physical store should also get a cut on the purchase.

Already, retailers are looking at charging omnichannel rents that seek to capture a percentage of sales linked partly to the physical retail space and partly to an online purchase, says ULI. But so far, these are tough to implement, especially in densely populated cities because defining catchment areas would be tricky, it says.

Another new way property owners are diversifying their income streams — outside of relying on just retail rents — are in-mall ad-

vertising and sponsorship, notes CBRE. For example, Singapore’s Jewel Changi Airport secured some companies as naming rights partners for some of its major attractions such as HSBC Rain Vortex, Shiseido Forest Valley, and Manulife Sky Nets.

With a tougher future ahead for the retail market, what is clear is that players in the field will have to be more creative and nimble in their approach to survive. Smaller malls may have a big advantage over larger ones, which could come off as generic, bland offerings. Smaller, in this case, might just be better. ■