Asia Pacific - February 2022

SPOTLIGHT

Savills Research

Asia Pacific Retail

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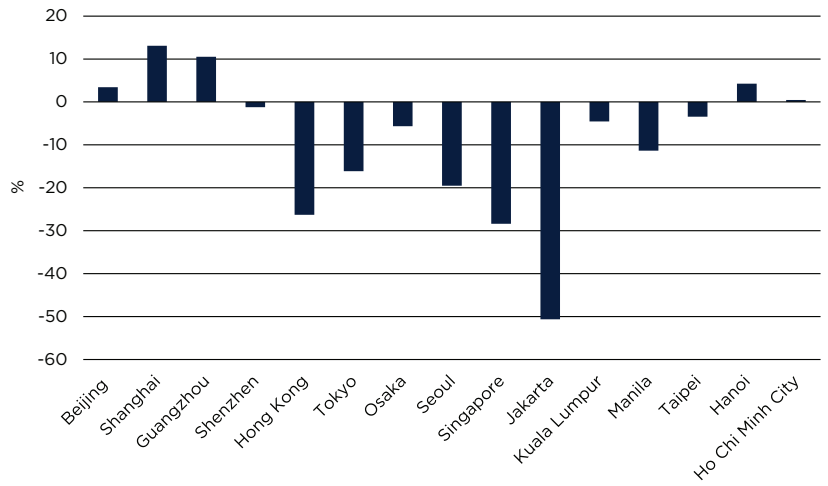
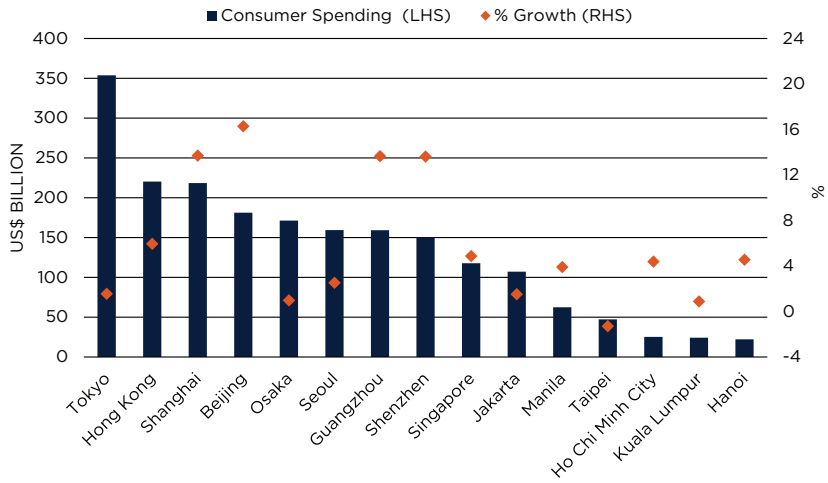
Domestic consumption supports retail while markets wait for the return of international tourists

GRAPH 1: Change in Rents, 2019 vs 2021



Source Savills Research & Consultancy

GRAPH 2: Consumer Spending and its Growth, 2021



Source Oxford Economics

GRAPH 3: Change in Tourist Arrivals and Retail Sales, 2019 vs 2020

Source Government statistics, Oxford Economics, Savills Research & Consultancy
Note *Estimated

UNEVEN RECOVERY ACROSS THE REGION

As we enter our third pandemic year, it is clear that in the field of real estate retailing, hospitality and tourism have been hit hardest by government measures which have included travel bans, social distancing and lockdowns. Though this has led to a period of general upheaval for the retail property market, the severity of infection rates, the varied success of vaccination programs and diverse containment strategies have all meant that recovery rates have been far from consistent across the region. The leading group includes mostly Chinese and Vietnamese cities, where business activity levels have remained robust with periodic disruptions. Beijing (3.4%), Shanghai (13.1%), Guangzhou (10.5%), Hanoi (4.3%) and Ho Chi Minh City (0.4%) have seen modest growth in rents over the past two years. Meanwhile, the laggards which include Singapore (-28.4%), Hong Kong (-26.3%), Seoul (-19.5%), and Tokyo (-16.1%) have moved beyond their lows with improving sentiment in evidence since the second half of 2021. Domestic consumption has lent support to these markets, particularly suburban/community retail, while rental growth among prime retail properties has remained weak. In markets which recorded growth, demand was driven by consumption from both residents and domestic visitors.

DOMESTIC RESILIENCE SUPPORTS DEMAND DURING COVID

The tourism industry has been decimated as the pandemic has severely impeded global mobility. Asia Pacific, the first region to suffer the impact of the pandemic and the part of the world with the highest level of travel restrictions currently in place, saw the steepest decline, registering a 54% y-o-y drop in the contribution of the travel industry to GDP in 2020, with international tourist arrivals and tourism receipts sliding by 84% y-o-y and 70% y-o-y respectively.

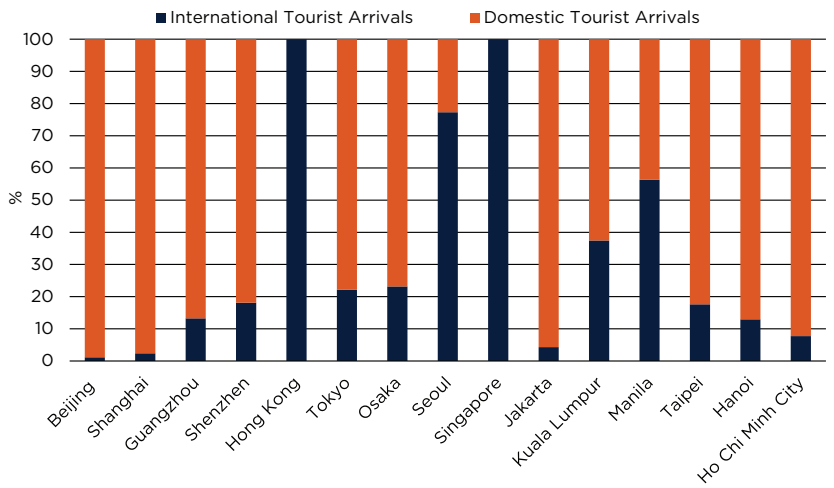
For many retail markets in the region, tourist spending has long been an essential contributor to revenues. We have seen a strong correlation between tourist arrivals and retail sales, where Hong Kong and Singapore record the steepest declines in tourist arrivals and retail sales between

2019 and 2020. Markets which saw a decline of 30% to 50% in aggregated tourism, that is domestic and international visitors combined, typically recorded a 0% to 5% drop in sales. Shanghai, Jakarta, Hanoi and Ho Chi Minh City were among the few markets which recorded positive growth in retail spending during 2020.

It's worth noticing that markets with large existing domestic tourism markets relative to international ones generally enjoyed the most resilience. Across the retail cities we track, those where domestic travellers accounted for less than 80% of all tourists witnessed a negative rental correction of 5% to 28% from 2019, with Jakarta proving the exception. Meanwhile, Shanghai, Guangzhou and Hanoi (where share of domestic tourists are 87% to 99% of the total) saw the strongest rental growth. Among these cities, Shanghai domestic tourists totalled 361 million in 2019, forty times greater than its international arrivals. After the 35% y-o-y drop in 2020, domestic arrivals rose by 55% y-o-y in 1H/2021, with spending soaring by 67% y-o-y. The prime headline rents of Shanghai's premier shopping malls reported a 13.1% increase between 2019 and 2021, with Q4/2021 availability and landlord incentives reporting very little change from pre-COVID levels.

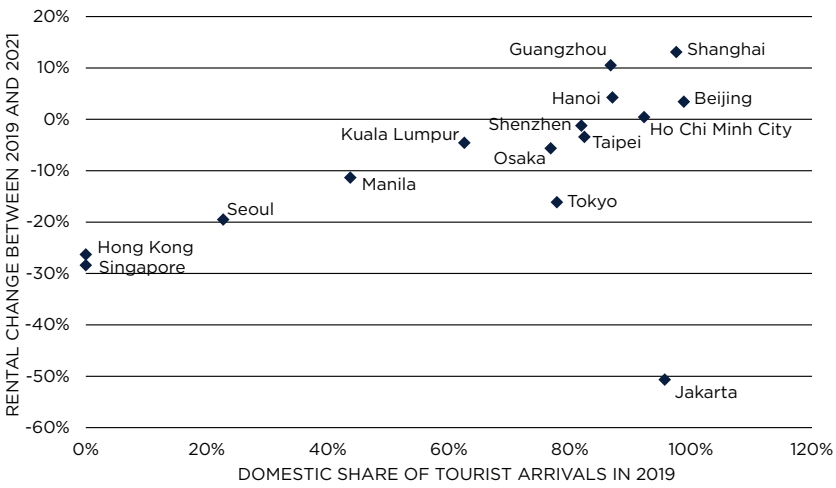
The pandemic has propelled the rise of domestic hotspots, where new retail opportunities are emerging. Meanwhile, the absence of international arrivals, particularly Chinese tourists, may cause some inbound-dependent locales to struggle.

Graph 4: International and Domestic Share of Tourist Arrivals, 2019



Source Euromonitor, Government statistics, Savills Research & Consultancy

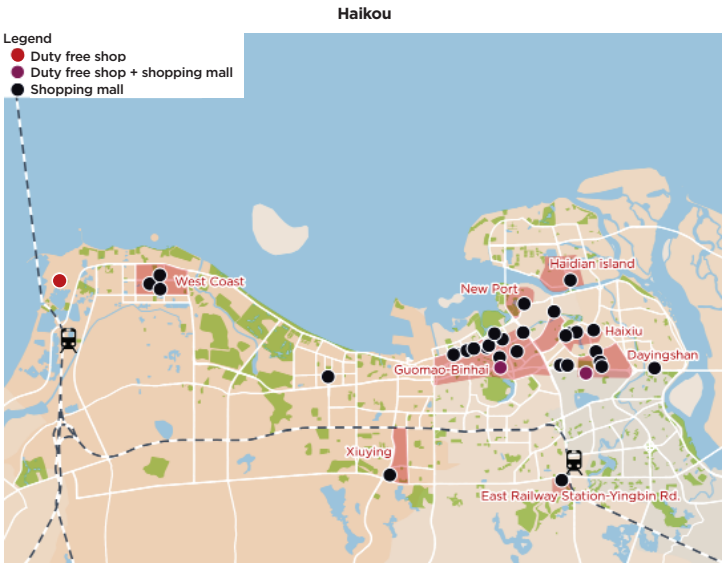
Graph 5: Strength of Domestics Tourism Market and Retail Rental Changes

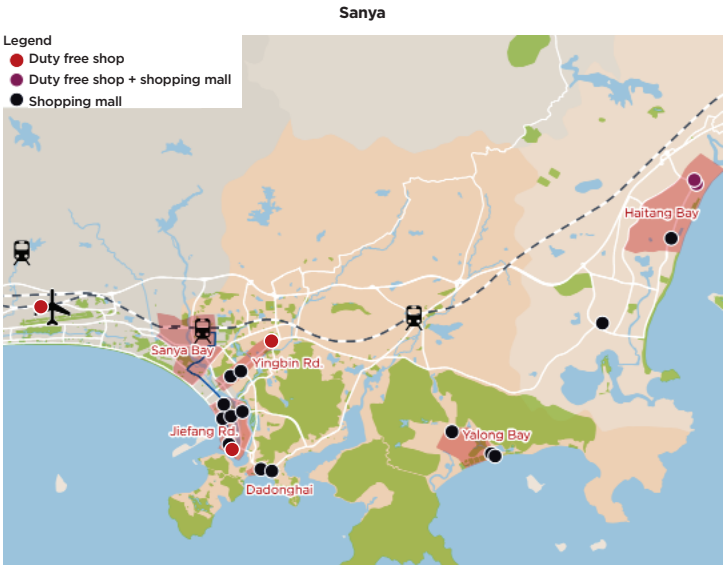


Source Euromonitor, Government statistics, Savills Research & Consultancy

This resilience has also led to faster retail recoveries in domestic hotspots such as Hainan in China, Jeju in Korea, Karuizawa in Japan and Phu Quoc in Vietnam. Government policy is playing a vital role in this process, with national and city-level campaigns beginning to emerge. For example, South Korea and Taiwan have both issued consumption vouchers which can be used for dining, shopping and domestic travel. The biggest push however has come from the Chinese government's attempt to reform and open up Hainan, transforming the island into a free-trade port by 2025. We see a lot of potential for the retail market in Hainan, with Haikou and Sanya the key drivers of growth. The province is rising rapidly as a new duty-free shopping haven within China, as many travellers have substituted their international trips for local ones. Spanning over 220,000 sq m, the total sales of the island's ten duty free stores soared by over RMB60 billion in 2021, up 84% YoY, following a 127% jump in sales in 2020. While it is hard to say if Hainan's popularity is sustainable in the post-COVID era, the gap is certainly narrowing between

MAP 1: Haikou and Sanya Retail Market





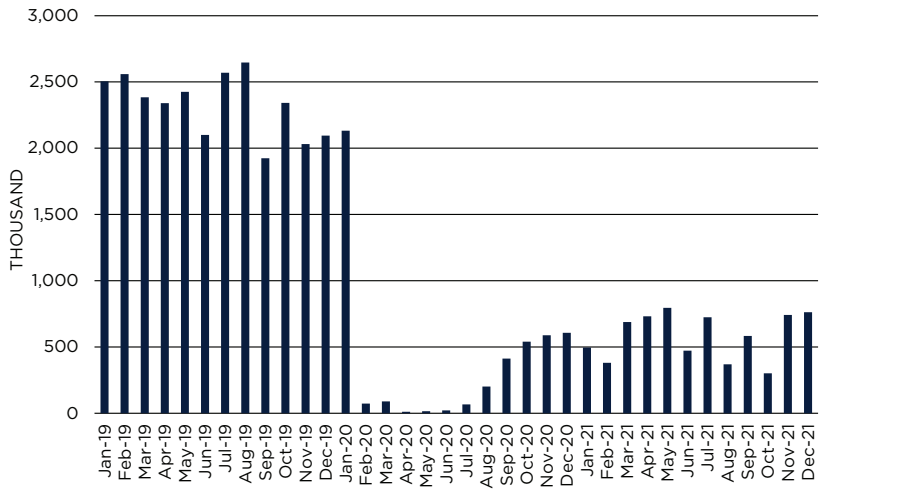
Source Savills Research & Consultancy

TABLE 1: Market Summary for Haikou and Sanya, 2020

MARKET	HAIKOU	SANYA
Population	2,884,410	1,035,360
GDP	RMB179.2 billion	RMB69.5 billion
GDP per Capita	RMB62,113	RMB67,165
GDP Forecast 2022-2026 (%pa)	9.3%	9.4%
Retail Sales	RMB93.0 billion	RMB28.5 billion
Retail Sales Forecast 2022-2026 (%pa)	9.1%	9.1%
Prime Retail Areas	Downtown: Jiefang Road, Haixiu, Guomao-Binhai, and Dayingshan Emerging: West Coast, East Railway Station-Yingbin Road, Xiuying and Mission Hills	Jiefang Road, Dadonghai, Sanya Bay, Yalong Bay and Haitang Bay, Yingbin Road
Total Stock	1.2 million sq m	424,000 sq m
Vacancy Rate	16.9%	15.7%
Market Description	Haikou's retail market started with department stores and they remain popular today. Nevertheless, new developments have been exclusively shopping malls since 2016. This has resulted in a gradual change in the structure of the retail property market to one that is now dominated by malls. Favourable policies and improving market confidence will see more well-known brands and operators explore new opportunities or expand their market presence in Haikou, bringing new dynamism to the market. Several large retail centres are in the works, including projects from China Resources, Longfor and OCT Group. The upgraded and much wider range of options available should attract both domestic and international retailers.	Sanya's retail market, still at an early stage of development, features a mix of shopping malls, department stores, retail streets, duty-free stores and outlet malls. With supply being limited in recent years, shoppers still prefer established department stores and retail podiums for the time being. Sanya's retail market is heavily reliant on the tourism industry. More malls are specifically targeting tourists and are offering experiential tenant mixes heavily weighted towards the F&B, leisure and entertainment trades. Sanya has benefited from a lack of outbound tourism over the last year, attracting throngs of domestic tourists looking for a substitute to Bali, Phuket or Halong Bay. Additionally, duty-free stores and outlets have also attracted those looking to replace trips to Hong Kong, Dubai or Jeju.

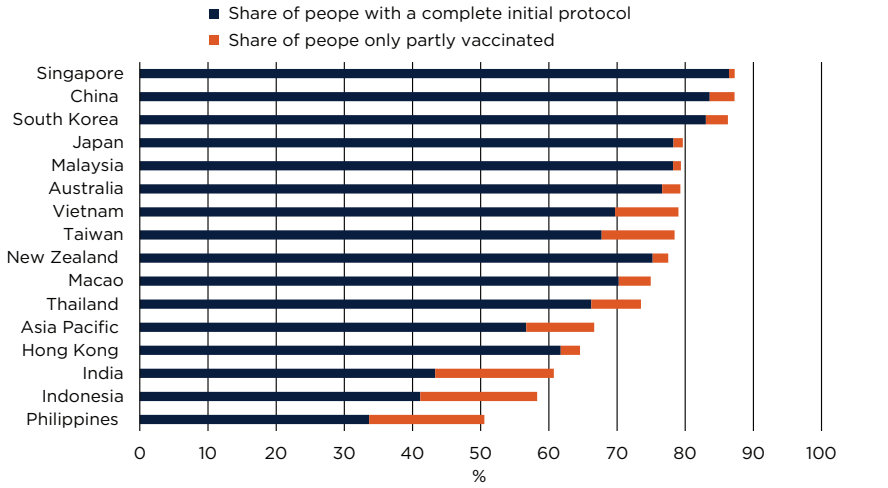
Source Savills Research & Consultancy

GRAPH 6 : Macau Mainland Chinese Tourist Arrivals, 2019 to 2021



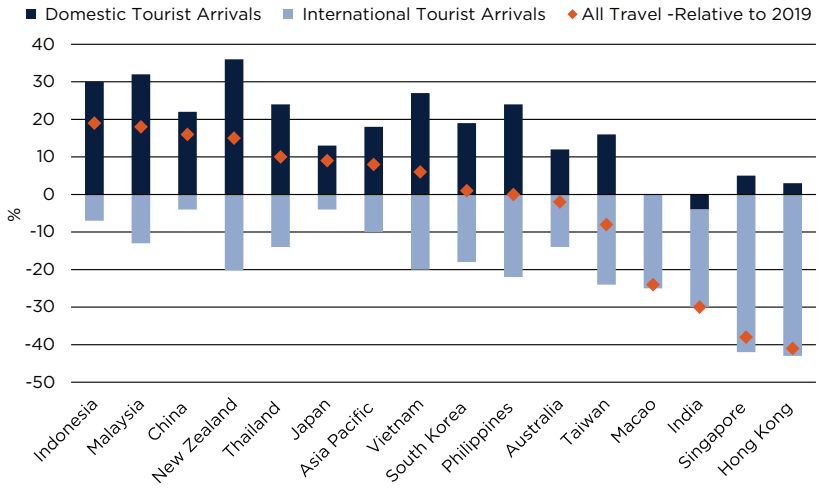
Source Macau Government Tourism Office

GRAPH 7: Vaccination Rate by Market, as of December 2021



Source Our World in Data

GRAPH 8: Projections for Overnight Visitors across Asia Pacific in 2022



Source Oxford Economics

the city and other popular shopping destinations within Asia Pacific. According to a survey conducted by consultancy firm Oliver Wyman, Hong Kong still tops the list as the most desired destination among Chinese tourists once normal travel is allowed to resume, but Hainan is now deemed a close second. After all, the cost of travel to Hainan is much lower, partially compensating for the pricing differences resulting from VAT, the consumption tax and import tariffs. The pandemic has acted as a catalyst accelerating this change, which is also in line with the PRC government's push for 'domestic circulation', a development focus to expand domestic consumption and smoothen supply chains to create a higher-level dynamic equilibrium where supply and demand boost each other.

INBOUND-DEPENDENT DESTINATIONS MAY CONTINUE TO STRUGGLE

Despite its value during the pandemic, the rise of domestic tourist consumption is unlikely to fully compensate for the suspension of international flow, especially for those inbound-dependent locales. Compared to the rest of the world, Asia Pacific has been slow to reopen due to sluggish vaccine rollouts and cautious containment strategies. Many countries still only allow residents to enter and/or impose stringent quarantine or lockdown measures. Any border reopening plans would be challenging and remain vulnerable to local caseloads. For instance, Hong Kong and Singapore have tried to open a travel corridor twice, but outbreaks have so far scuppered plans. Even if quarantine-free travel is resumed, visitors may still hesitate to return as the Macau-mainland China travel bubble and Phuket Sandbox plan demonstrated. Arrivals were muted in Macau and have only rebounded to about 25% of pre-COVID levels since its reopening in September 2020. Similarly, Phuket only welcomed an average of 15,000 foreign visitor arrivals per month under its Sandbox programme, a sharp contrast to the 806,000 monthly arrivals recorded in 2019. Aside from low traveller confidence, both destinations share the same key source market, with Chinese tourists accounting for 71% of inbound arrivals in Macau and 32% in Phuket in 2019. Yet China's 'zero-COVID' policy combined with questions surrounding the efficacy of some vaccines may also prolong PRC visitors' absence from the global tourism market.

The China Tourism Academy has forecast that outbound tourism in mainland China would resume in 2022 and possibly reach about 20% of the traffic recorded in 2019. This slow comeback may point to a gradual L-shaped recovery among its popular outbound destinations.

UPWARD TRAJECTORY AHEAD DESPITE THE UNCERTAINTIES

Looking forward, while deep uncertainty surrounding the pandemic still clouds the outlook, the retail markets across Asia Pacific should continue to improve in 2022. The development of the ongoing Omicron infection waves and vaccination progress will have a significant bearing on the normalisation of retail and travel activity, which may result in further regional divergence. The role of domestic tourism in supporting the retail industry should remain highly relevant in the near term, particularly before 2024. According to Oxford Economics, all 15 major destinations in APAC, except for India, are expected to see domestic visitor volumes climb back to their 2019 levels in 2022. New Zealand, Malaysia, Indonesia, Vietnam and Australia should lead the trend with rapid growth of over 20%. Meanwhile, inbound travel will not recover until 2024 in the region and as late as 2025 for some individual markets. Though downside risks persist, most retail markets should continue to benefit from the rebound in global trade and regional economies, as well as various relief measures deployed by local governments. All in all, the recovery has been delayed but not derailed and we remain hopeful of improving conditions this year.

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