

# Asia Pacific Retail



# Reasons for hope despite near-term challenges

## REGIONAL OUTLOOK STAYS POSITIVE ON INFLATION EASING AND ANTICIPATED RATE CUTS

The Asia Pacific retail property sector has embarked on a recovery journey following the disruption of the global pandemic. As regional economies navigate post-COVID realities and opportunities, a closer analysis of 2023 reveals the differences which have emerged between individual markets. While most of them found a sure footing in 1H/2023,

recovery trajectories have since diverged. Destinations enjoying a faster return of international tourism saw a noticeable uptick in rents in 2H/2023, with Hanoi (5.7% HoH), Osaka (5.4% HoH), and Hong Kong (3.2% HoH) registering the highest growth. Meanwhile, major consumer hubs, such as Tokyo, Shanghai, Shenzhen, and Taipei, remained largely flat. Seoul was the only outlier facing rental declines, down 5.9% HoH, owing to sustained vacancies and a

dip in consumer spending amid the inflation shock. As landlords competed to secure quality tenants, this gave rise to more flexible lease terms across most markets, including turnover-based clauses in prime retail premises.

With the rebound unfolding more gradually than anticipated, we ask if there are reasons for hope and if so, when full recovery may transpire?

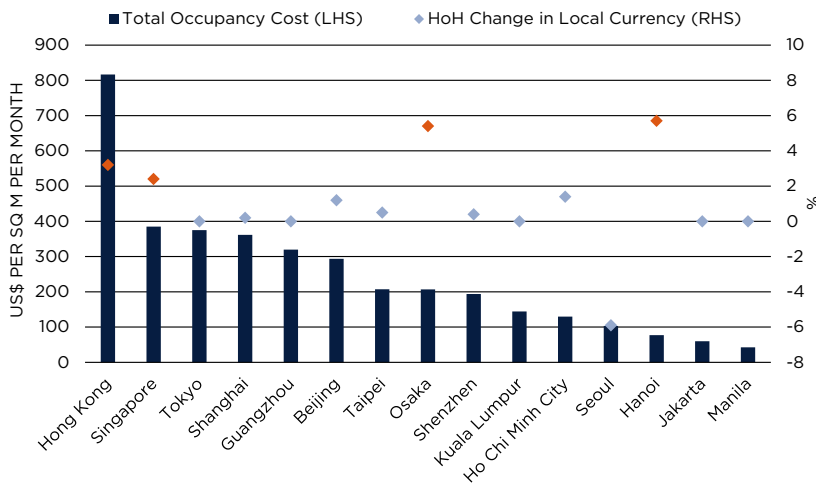
Globally, 2024 is shaping up to be another challenging year as global economic growth is projected to decelerate for a third year in a row, yet the risk of a global recession seems to have receded largely due to the resilience of the United States' economy and strength in Asia Pacific. The latter remains the quickest-growing region in 2024, albeit at a moderated rate compared to the previous year. Asia Pacific's real GDP growth is forecast to reach 4.0% YoY in 2024, substantially surpassing the 1.6% YoY and 0.6% YoY growth expected for the United States and Eurozone respectively. Much of this positive outlook draws on the brisk expansion of India and the smaller emerging markets in Southeast Asia, as well as steadfast consumer expenditure growth in sizable economies in the region. A number of mature markets like Hong Kong, Singapore, South Korea, Australia and Japan are all seeing a soft sub 3% growth, as their globally oriented, export-driven economies are more susceptible to the broader economic slowdown.

Inflation rates stabilised in 2023 and are falling faster than expected in most regions amid restrictive monetary policies. When prices fall, interest rates will follow. A number of markets anticipate interest rate reductions starting from mid-2024, with Japan, China, Malaysia, and Taiwan being exceptions. As both pricing and financing costs come down, greater purchasing power will be released. Consequently, retail sales are on an upswing, even though the pace has moderated as the effect of 'revenge spending' has normalised over time. Importantly, a slower rate of growth is, after all, an expansion and a reason for hope.

## MAINLAND CHINESE DEMAND IS KEY TO THE RECOVERY OF TOURISM IN THE REGION

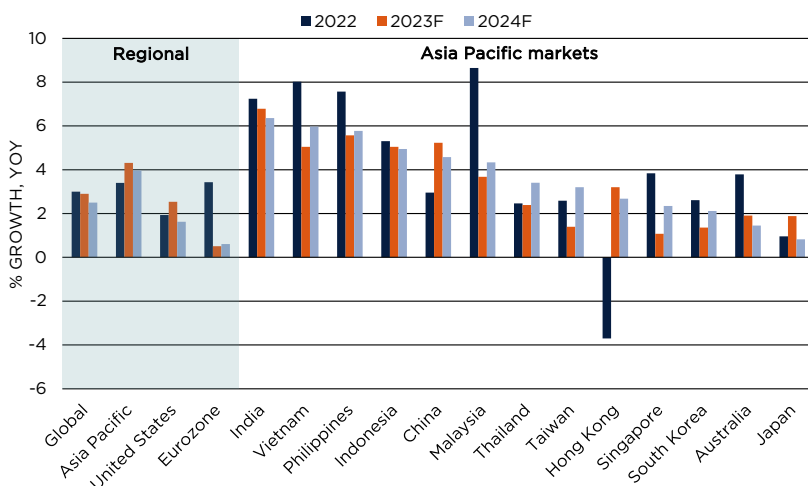
The Asia Pacific tourism market has been the most affected by the pandemic over the past three years. Compared to 2019, the international tourist volume only recovered to 65% of its historical peak in 2023, a

GRAPH 1: Prime Retail Occupancy Cost by Market, 2H/2023



Source Savills Research & Consultancy  
 Note Prime retail basket is made up by a small number of prime buildings (5 to 10) in each market. Total occupancy cost is inclusive of rents, management fees and government taxes/rates.

GRAPH 2: Real GDP Growth by Market, 2022 to 2024F



Source FocusEconomics



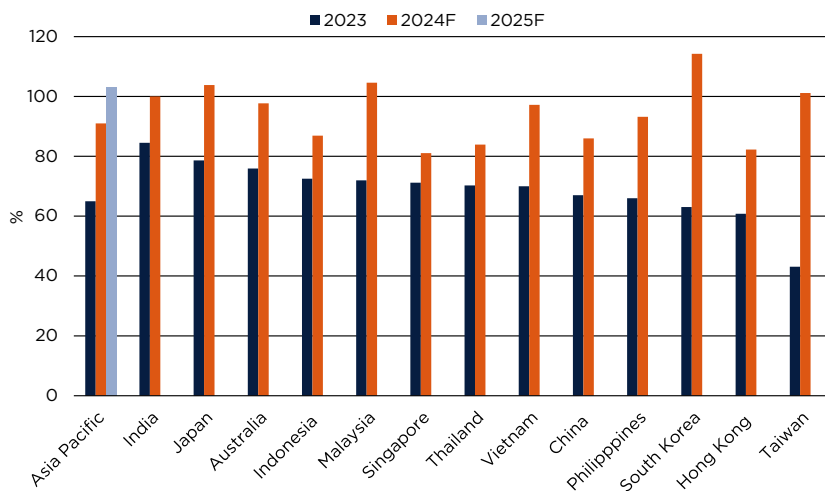
recovery rate considerably slower than other regions. A recent survey by a UNWTO panel of experts suggests that a full recovery is likely only to occur in 2025 or later.

However, we believe that certain individual markets will outperform the region.

When examining individual markets, international tourist arrivals in India and Japan have already rebounded to around 80% of their 2019 levels, while most other major destinations are in the 60% to 70% range. Based on these figures and local government forecasts, we predict that frontrunners like India, Japan, and Australia will fully recover by 2024, while others may take longer.

## While external headwinds persist worldwide, the resurgence in international tourism and the resilience exhibited at the domestic level bode well for longer-term growth.

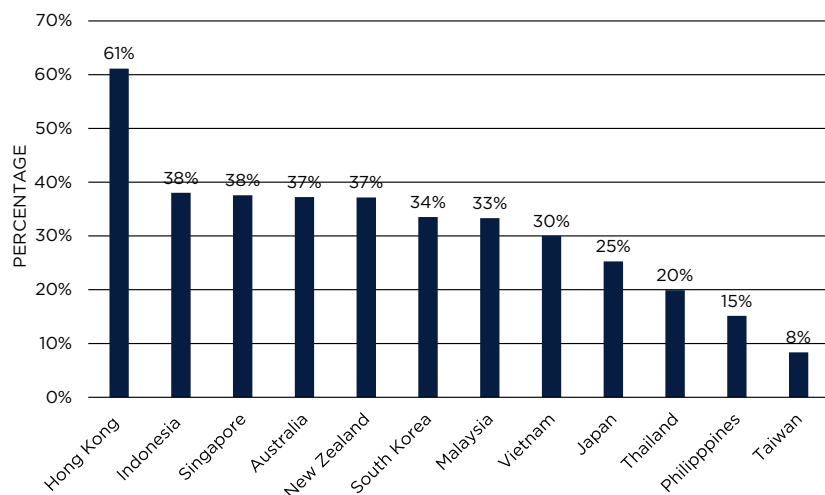
**GRAPH 3: International Tourist Arrivals Against 2019-levels, 2023, 2024 and 2025F**



Source Government data, UNWTO, Tourism Economics, Savills Research & Consultancy

Note The forecast figures for 2024F are published by local tourism bodies and do not reflect our view.

**GRAPH 4: Mainland Chinese Tourists Arrivals Against 2019-levels, 2023**



Source Government data, Savills Research & Consultancy

On the other hand, markets heavily reliant on mainland Chinese demand, such as South Korea, Hong Kong, and Taiwan, lagged behind the regional average in 2023. These travellers were the largest source market in APAC before the pandemic, so their presence is crucial in determining the pace of recovery for the region.

However, due to factors including visa restrictions, limited airline capacity, a slower domestic economy and increasing travel costs, their return to the international market has been slow. As a result, aside from Hong Kong, most markets have seen mainland Chinese arrivals return to only around 30% of 2019 levels.

Taiwan has been hit the hardest, with China banning both individual visits and group tours since 2022. Given the current geopolitical climate, this travel ban is unlikely to be lifted soon. The decrease in mainland Chinese tourist arrivals has shrunk the overall market size. While Chinese travellers remain the dominant source, their importance has decreased from 52% in 2019 to 40% in 2023. Meanwhile, travellers from South Korea, the US, and Singapore have gained more market share.

Early indicators for 2024 show promising signs, with spending data collected by Alipay during the last Chinese New Year period suggesting a potential recovery. Mainlanders still prefer to visit their old favourites such as Hong Kong and Macau, meanwhile Japan has also attracted a lot of spending given the appeal of a weak yen. The most significant increase in spending was seen in Thailand, Malaysia, and Singapore, markets which recently relaxed visa restrictions for Mainland Chinese. Chinese spending in these markets surpassed the 2019 peak by 7.5%, and we believe this growth may continue throughout the year.

**CONSUMER SENTIMENT REMAINS SUBDUED IN CHINA AND CONTINUES TO WEIGH ON THE REGION'S RETAIL PERFORMANCE.**

However, structural problems in China's domestic economy, combined with its challenging property market, cannot be ignored. Chinese consumer confidence remains at an historical low and households continue to park savings. A recent Nielsen survey revealed that the economy, prices, and job security are the top concerns for Chinese consumers over the next six months. A third of the respondents are looking to downgrade their purchases and

seek lower prices, which could put pressure on retailers with more price-sensitive products.

In the meantime, the Chinese government has continued to introduce accommodative policy to boost domestic consumption, so likely only time will tell how all these factors will play out in the economy. As such, we expect the retail scene in tier 2 and lower cities in China to struggle and drag the national average down, whereas the tier-1 cities and a few domestic tourist hotspots like Hainan are expected to hold up better in the near term.

Consumer sentiment in the Asia Pacific region presents a diverse picture outside China. India and the ASEAN countries are

demonstrating optimism, while mature markets such as South Korea and Japan are more pessimistic. We anticipate a stronger retail performance in tourist destinations within these markets, bolstered by an influx of either international or domestic tourists. Data from the International Air Transport Association (IATA) indicates that domestic passenger traffic volumes in both China and India surpassed pre-pandemic levels in 2023. Australia and Japan were down less than 5% compared to their peak, demonstrating the resilience of domestic travel markets. In contrast, locations which are more reliant on local traffic may post a weaker performance.

**LEASING MOMENTUM HAS BEEN PRIMARILY DRIVEN BY THE GROWTH OF EXPERIENCE-ORIENTED RETAILERS, WHILE LUXURY RETAILERS HAVE BEEN FOCUSING ON CONSOLIDATION**

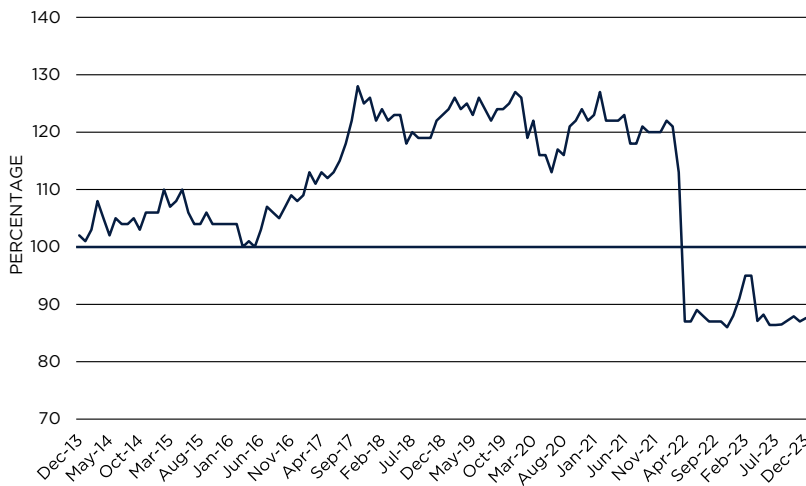
Experience-oriented trades remain the key momentum driver for demand, especially food and beverage operators. Cafés and casual dining establishments continue to be the fastest expanding category within the F&B sector. We have observed an increasing number of Chinese F&B brands, such as Cotti Coffee and Luckin Coffee, actively expanding their presence in Southeast Asian markets for example.

In the general retail sector, athleisure wear and cosmetics retailers are the most active. Riding on an increasing awareness of health and fitness, athleisure wear sales spiked during the pandemic and remain strong. Concurrently, we have noticed that multi-brand cosmetics stores, such as OliveYoung and Matsumoto Kiyoshi, are returning to high streets in markets like Seoul and Hong Kong, in anticipation of a surge in tourist spending.

Jewellery and watch retailers are primarily focusing on consolidating their store networks. Many luxury retailers in the region are concentrating on building concept stores and exploring opportunities for pop-up stores. New expansions are very limited and are often only taking place in very selective markets where there is a gap in offerings. A similar pattern is observed among fashion retailers, with more noticeable activities in South Korea, Taiwan, and Malaysia.

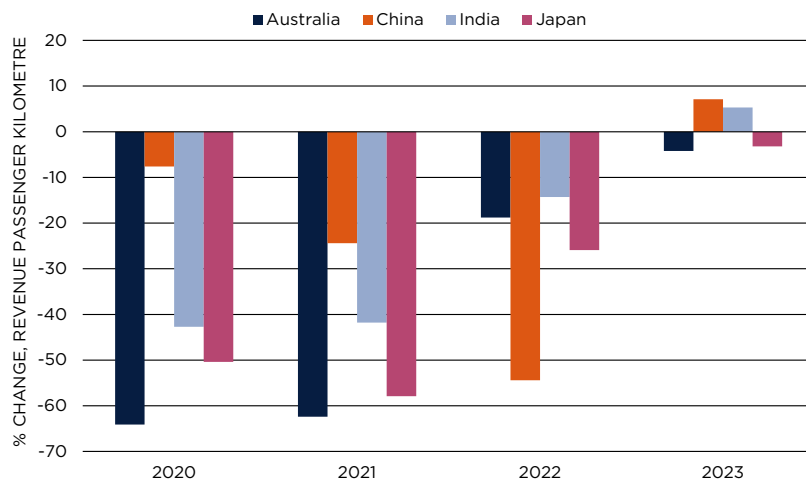
In addition to an uptick in leasing activity, the market has also seen the emergence of other trends. Brands are focusing more on creating a comprehensive experience for their customers beyond shopping. This is usually achieved through a combination of various marketing campaigns like pop-ups, exhibitions, and co-branded activities. For example, Fendi partnered with HeyTea to launch a co-branded drink to promote its "Hand in Hand" exhibition in Beijing,

**GRAPH 5: Chinese Consumer Confidence Index, December 2013 to December 2023**



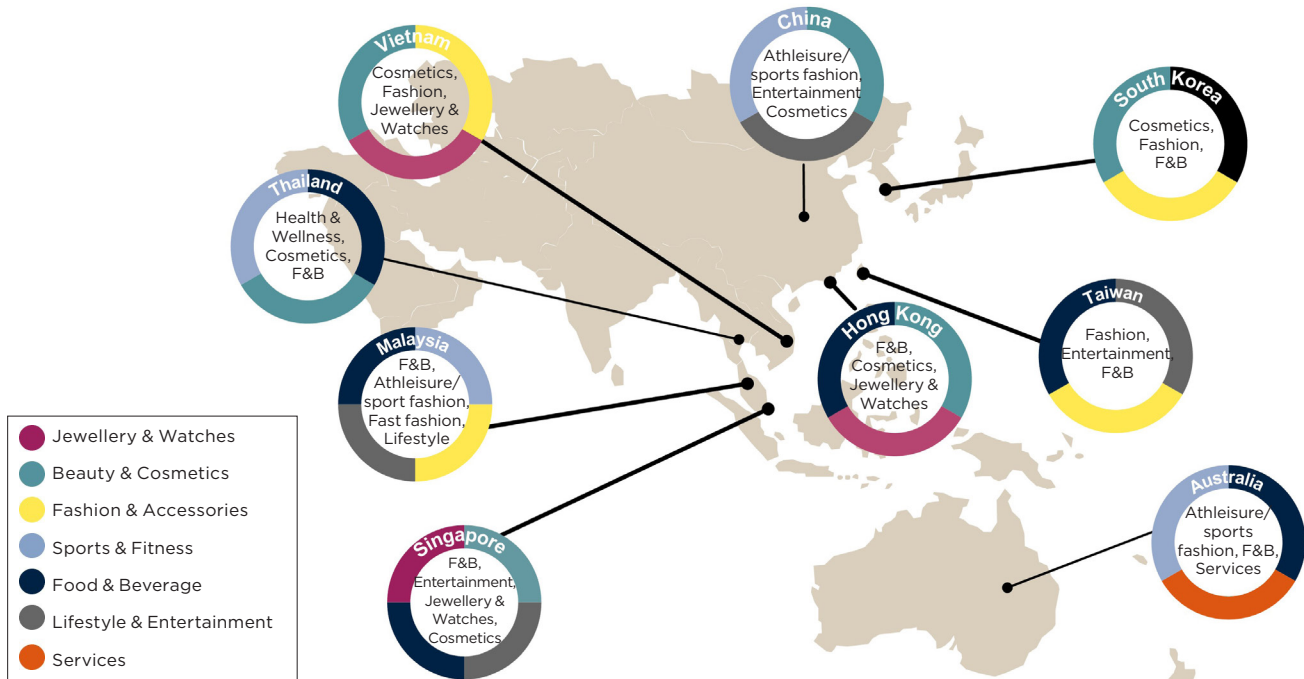
Source National Bureau of Statistics, Savills Research & Consultancy

**GRAPH 6: Domestic Passenger Traffic Against 2019-levels by Air Route, 2020 to 2023**



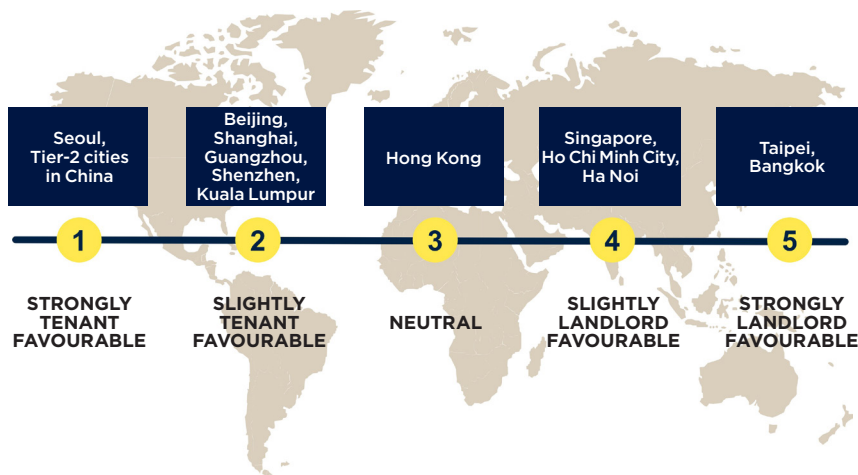
Source IATA, Savills Research & Consultancy

GRAPH 7: Key Leasing Demand Drivers by Market, 2H/2023



Source Savills Research & Consultancy

GRAPH 8: Asia Pacific Prime Retail Leasing Market Dynamics, 2024



Source Savills Research & Consultancy

**RETAIL RENTS TO RISE GRADUALLY AS TRAVEL RECOVERS AND MARKET CONDITIONS IMPROVE WITH THE EXCEPTION OF CHINESE CITIES**

In terms of leasing market dynamics, landlord strength is evident in markets such as Taipei, Bangkok, Singapore, and Vietnam in 2024. However, most major markets, including Seoul, Kuala Lumpur, and the major Chinese cities, are leaning more towards being tenant-favourable, indicating a good time to negotiate for expansion.

We believe the worst is behind us, and there is a relatively positive near-term outlook across the region. The sustained recovery of international travel and the general downward trend of inflation will continue to lift spending and subsequently the retail market. Eleven out of the fifteen prime markets we track are now in a late downswing to early upswing, implying that the retail market will improve in the coming 12-month period.

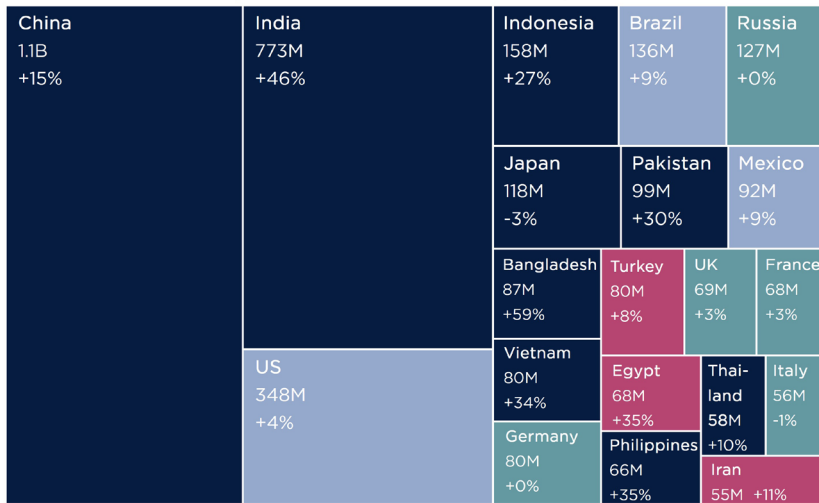
Most of the prime Asia Pacific shopping centre markets should see rental increases of 0 to 5% YoY in 2024, with Kuala Lumpur standing out with a potential upside of 10% YoY. The exception here is rents in top-tier Chinese cities, which are likely to remain mostly flat with some downside risks in Guangzhou, Shenzhen, and Hong Kong. Overall, Asia Pacific prime shopping centre new supply is projected to reach a whopping 6 million sq m between 2024 and 2025. Of this incoming supply, 78% is concentrated

extending its reach into the daily lives of customers and fostering a closer connection.

Simultaneously, retailers are also increasingly incorporating lifestyle elements into their in-store shopping experiences, leading to a rise in concept stores, particularly among luxury brands. For instance, the new Richard Mille flagship store in Singapore offers more than just product displays. It includes a restaurant, a bar, a sports room, a watchmaking counter, and a hidden library.

The market has also seen more retailers exploring a wider range of store formats and locations, especially those targeting younger consumer groups. Many brands are occupying spaces in less traditional shopping areas or unconventional spaces like cultural heritage projects. These stores also serve to increase social media engagement among consumers, promoting both physical sales and online exposure at the same time.

GRAPH 9: Top 20 Consumer Markets in 2030, 2024



Source World Data Lab, Savills Research & Consultancy

in the four tier-1 Chinese cities. This huge influx of new supply will continue to exert rental pressure on key markets, whereas the Hong Kong retail recovery is being hindered by consumption leakage amid the growing outbound travel to Shenzhen among residents.

Looking further ahead, we expect to see a soft L-shaped recovery with rents increasing by 0 to 5% across the board in 2025, except in Chinese markets which are expected to remain under pressure.

Despite the weakness we have seen in certain parts of the region, Asia Pacific continues to offer immense potential in the mid to long term. The region is at the forefront of socioeconomic changes, with the size of its consumer markets, defined as someone who spends at least \$12 per day, projected to grow from 1.9 billion in 2024 to 2.5 billion by 2030, reflecting a robust growth of 38% in just six years. As a result, nine of the world's top 20 consumer markets will be in Asia Pacific. This growth signifies the increasing importance of Asian consumers in shaping the global retail landscape, and this also presents a significant opportunity for businesses willing to look beyond temporary near-term challenges.



For more information about this report, please contact us

Savills Research

**Simon Smith**  
Regional Head of Research & Consultancy, Asia Pacific  
+852 2842 4573  
ssmith@savills.asia

**Nancy Wong**  
Senior Manager, Regional Research & Consultancy  
+852 2842 4281  
naywong@savills.asia

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