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**INTRODUCTION**

The Asian retail real estate landscape is shifting. In sharp contrast to just five years ago, many retailers now believe that they cannot be viewed as global retailers without a strong presence in Asia. Discussions on strategy increasingly view Asia as a key source of growth for the coming decades, and also as a source of innovation and new ideas. Retailers and developers alike are now changing their offerings to address the more experienced and demanding retail consumers of today’s Asia.
CURRENT RETAILING TRENDS

Prime retail real estate in Asia Pacific continued to reach new levels based on solid economic drivers, strong tourism and long term policies that stimulate growth throughout the region. For the second year in a row, Hong Kong retained its position as the world’s most expensive city for retail rents. Average rents reached new records in its prime shopping districts, with shop rents in Causeway Bay the highest at US$ 3,017 per square foot per year. While growth noticeably slowed in the first half of this year, retail rents on prime streets in Hong Kong jumped another 20% from 2012 and have more than doubled since 2009. Ginza and Omotesando in Tokyo, Pitt Street Mall in Sydney, and Myeongdong in Seoul also featured in the top 20 rankings.

H1 2013 RETAIL RENTS BY CITY

<table>
<thead>
<tr>
<th>City</th>
<th>Rent (US$/sf/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>3,016.86</td>
</tr>
<tr>
<td>Tokyo</td>
<td>980.34</td>
</tr>
<tr>
<td>Sydney</td>
<td>850.34</td>
</tr>
<tr>
<td>Seoul</td>
<td>732.16</td>
</tr>
<tr>
<td>Beijing</td>
<td>435.92</td>
</tr>
<tr>
<td>Brisbane</td>
<td>425.17</td>
</tr>
<tr>
<td>Shanghai</td>
<td>411.77</td>
</tr>
<tr>
<td>Melbourne</td>
<td>382.65</td>
</tr>
<tr>
<td>Singapore</td>
<td>353.86</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>322.84</td>
</tr>
<tr>
<td>Perth</td>
<td>297.62</td>
</tr>
<tr>
<td>Adelaide</td>
<td>280.61</td>
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<tr>
<td>New Delhi</td>
<td>253.42</td>
</tr>
<tr>
<td>Taipei</td>
<td>229.19</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>222.96</td>
</tr>
<tr>
<td>Haridwar</td>
<td>211.81</td>
</tr>
<tr>
<td>Mumbai</td>
<td>150.61</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>125.16</td>
</tr>
<tr>
<td>Kolkata</td>
<td>121.16</td>
</tr>
<tr>
<td>Bangkok</td>
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<tr>
<td>Jakarta</td>
<td>109.67</td>
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<tr>
<td>Bengaluru</td>
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<tr>
<td>Pune</td>
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<td>Chennai</td>
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<td>Hyderabad</td>
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<td>Mumba</td>
<td>47.42</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>36.29</td>
</tr>
</tbody>
</table>

*In US$/sqf/year

1Main Streets Across the World 2013-2014
Retail demand is closely related to retail spending. Retail sales in the region have grown 21% for the five years through 2013, most rapidly in Hong Kong, China, Vietnam, Indonesia, India, and South Korea. Rapid growth and sweeping economic changes have raised retail demand across the region since 2009. Strong GDP growth of 6-7% post global financial crisis to 2011 has strengthened labor market conditions, supporting consumer confidence and household disposable incomes, and in turn, consumer expenditures. Broadly, unemployment rates have fallen from 5.6% in 2009 to 5.2% this year, and are substantially lower than their pre-crisis averages in several cases, including Hong Kong and Singapore, by more than 1.0 percentage point. At the same time, real wages have continued to climb across the region. Domestic demand has also benefited from the continued easing of macroeconomic policies across most of the region. Many countries have either loosened their monetary policies or paused the tightening cycles. Retail sales have thus been on an upward trend, with private consumption as a share of GDP at 35.9% this year compared to 31.0% in 2014.
STRONG TOURISM  Sound economic fundamentals, combined with growth in air travel connectivity and affordable travel, have also been instrumental for stimulating tourism. Based on MasterCard Global Destination Cities Index report, major cities within the region have prominently placed among the top 10 rankings. The importance of tourist arrivals to retail demand and rents is underscored by their high levels of retail spending. Notably, tourist spending makes up as much as 30% of the total retail sales, especially among these top travel destinations. In the case of Hong Kong, the biggest influence on retailer demand is mainland China; nearly three out of every four tourists are from the mainland.3

LONG-TERM ECONOMIC DRIVERS Ensuring stable growth in the long term has compelled policy-makers to implement structural reforms that will rebalance economic activity and rely more on private domestic demand as a driver of growth. China has been at the forefront, with plans to strengthen the social safety net, boost wages, and improve access to low-income housing (as outlined in the 12th Five Year Plan) to help catalyze Chinese consumer spending. The continued liberalization of trade within Asian economies, as well as new free trade agreements with other emerging and advanced economies globally, are also set to impact investments and private consumption and transform the retail landscape in the region.

1Based on 2012 data.
ECONOMIC GROWTH ON TRACK, RETAIL OPPORTUNITIES IN SIGHT

The growth story for the Asian retail market is far from over. The impact of the increasing number of consumers in Korea and Japan approaching retirement will be offset by fast-growing emerging markets in the region where more than 40% of the population belongs to the 25-54 age cohort. This new consumer class will be the biggest spenders as they set up homes, raise families, and therefore pump a lot of money into the region’s retail market. Additionally, the region will continue to benefit from positive reforms and supportive regulatory framework that should foster more sustainable, balanced, and inclusive economic growth and in turn, fuel the rise of the middle class. Consequently, overall retail sales growth is expected to accelerate over the next four years in China, India, Indonesia and the other emerging markets in the region, according to Euromonitor International.
DEVELOPED MARKETS

JAPAN Japan is Asia’s most developed economy with total retail sales ranking second after China at US$1.3 trillion in 2013. Japan now has a full range of major international brands, with recent entrants including Hollister, Old Navy, American Eagle, Tiger Copenhagen, Free People, Tommy Bananas, and Charles & Keith. In addition, Japan has a range of home grown brands that speaks of its eclectic culture. Japanese brands are increasingly expanding throughout Asia including Uniqlo, Muji, Nitori, Azul by Mosooy, United Arrows, Point Inc. and more. Larger retail formats are also heading overseas with Mitsui Fudosan and AEON Group developing outlets and shopping centers, while department store operators including Takashimaya and Ito Yokado are also active in global markets. The top Japanese malls, Lazona Kawasaki Plaza, AEON Laketown, and LaLaport Tokyo Bay have achieved annual sales of around US$ 720 million, US$ 670 million, and US$ 580 million respectively in 2012.

AUSTRALIA A strong base of local retailers provides strong competition for international retailers entering the country. Nonetheless, as the fourth biggest market in Asia with retail sales projected at US$ 233 billion in 2013, Australia is increasingly attracting international names. Sydney and Melbourne have a full range of luxury retailers such as Prada, LV, Dior, Bulgari, Armani, and Tiffany. Luxury designer labels such as Marc Jacobs and Reebonz have entered the market recently and the Japanese fast fashion giant, Uniqlo is debuting with a flagship store in Melbourne next year. H&M are also opening shortly in Melbourne and Sydney while Zara and Topshop have opened a number of stores over the last 24 months. Australia is home to some of the top performing malls in Asia with Chadstone Mall (Melbourne) generating sales of around US$1.3 billion while Westfield Bondi Junction (Sydney) has sales approaching US$1 billion.

HONG KONG While Hong Kong is a city market, accounting for just over 3% of China’s retail sales, it is still an exceptionally important market. Hong Kong often exhibits the highest sales productivity in Asia, and indeed for many brands, globally Hong Kong is home to many of the best performing centers in Asia with a mix of local and international brands. Hong Kong’s retail scene has both main street stores, such as Myeongdong, as well as malls. Times Square, one of Seoul’s mega malls, had annual sales of US$ 720 million, US$ 670 million, and US$ 580 million respectively in 2012.

SOUTH KOREA With sales of US$ 187 billion in 2013, South Korea is the fifth largest retail market in Asia Pacific. With the 2008 financial crisis continuing to affect development confidence, the supply of shopping centres and future development pipeline is limited, with the result that existing shopping centres are among the best performing in Asia. Growing tourist arrivals to the peninsula, fuelled in part by the interest in Korean pop culture, will continue to support the retail sector. International fast fashion brands including Zara and H&M have been expanding in market, competing with home grown fashion brands such as 8 Seconds. Korean retailers are increasing looking to expand in China and Japan with brands such as E-Land, Beanpole, Basic House and CJV cinemas very active internationally. The country is the second largest market globally for outdoor sports equipment. Seoul’s retail scene has both main street stores, such as Myeongdong, as well as malls. Times Square, one of Seoul’s mega malls, had annual revenues exceeding US$ 1 billion in 2012.

SINGAPORE The island’s state per capita GDP has increased by over 50% in the last ten years, driven by the government’s efforts in the earlier part of the century to revamp the economy into a high income nation. Tourism has surged on the opening of the Integrated Resorts and the country remains a shopping destination for the Southeast Asia region, with Indonesians and Malaysians forming a huge part of its tourist arrivals. The retail sector has undergone a renaissance in recent years and the republic is now a vital stopover for the likes of H&M, Tory Burch and Abercrombie & Fitch to name just a few.

2013 ANNUAL DISPOSABLE INCOME PER CAPITA BY COUNTRY

Source: Euromonitor International
higher than average spending adults (43 million with incomes of $10,000) along with a large workforce aged 25 to 54 that accounts for about half of its population. Luxury retail has a limited presence in the top 5 cities in the country. However a broad range of brands are already in the market including LVMH, Montblanc, Bvlgari, and Richemont. Mid-priced fashion and food & beverage (F&B) segments have managed to grow rather quickly and have expanded into several Tier 2 and Tier 3 cities. Forever 21, M&S, Zara, Clarks, Lacoste, Starbuck and Dunkin Donuts are among the more active brands expanding in the market.

**INDONESIA** With a population of over 200 million and a maturing economy, Indonesia has retail sales of $US 145 billion in 2013, making it Asia’s 6th largest retail economy. It has grown steadily on the back of rapid economic development that has given rise to a growing middle-class. Steady growth in retail sales of 5-6% for over a decade has also prompted international retailers to expand their footprint in this Southeast Asia’s rising star. Jakarta, the nation’s capital and the center of commerce and government, has been the focus of retail investments, however, with the recent regulations caging all new permits for shopping centers in Jakarta, the focus of development is shifting to include other major cities such as Surabaya, Medan, Bandung, Balikpapan, Makassar and others. Foreign hypermarket brands are active across the country and Carrefour, Lotte and Giant are among the international hypermarket operators aggressively competing with local players such as Hypermart, Indomaret Pramastoma and Hapro to tap the retail market in urban areas. A young population is also another major factor attracting retailers to Indonesia, with the group aged 25-34 years accounting for more than 40% of the total population. H&M, Uniqlo, Zara, QuickSilver, Rip Curl and Galleries Lafayette have entered the market recently taking note of the strong economic fundamentals and the scale of opportunity the country can offer over the next 15-20 years.

**THAILAND** Thailand is Asia’s 8th largest retail economy country with sales of $US $1 billion in 2013 and is next in line to Indonesia in emerging markets. Boomong tourism and rising incomes of its spending class population have certainly fuelled retail growth in Thailand. Retail sales in Bangkok have been growing at an average of 9% annually for over a decade, and the city accounts for more than half of national retail sales, supported by strong tourist spending. Uniqlo is expanding steadily while Pull & Bear, Zara Home, Sephora and Victoria’s Secret have also entered the market recently. Rapid expansion in F&B and convenience store network in the country indicates rising incomes at the low end of the income chain, and a market poised for a steady growth in F&B and fast fashion segments over the next 5-10 years.

**VIETNAM** Vietnam closely follows Thailand with retail sales of over $US $7 billion in 2013. The return of stronger economic growth is set to lift living standards and aspirations, and certainly presents sustainable, long-term opportunities for retailers. Ho Chi Minh City, which is the nation’s economic center, is typically the entry point for international retailers. Notably, retail sales have grown at an annual average of 11% during the last decade. Recent expansions by Aeon – Livingsmart, Lotte, Lego, Louis Vutton, Ferragamo, Uma and the entry of Dior, Starbuck and Dunkin Donuts, among others, indicate growing opportunities in Hanoi and Ho Chi Minh City. In terms of shopping centre supply the market has been active with Vincom’s 230,000 sq.m Mega Mall – Royal City, opening in 2013 in Hanoi. While new developments are attracting the crowds, first generation shopping centers are in some cases suffering due to increased competition.

**THE PHILIPPINES** The Philippines has also taken on a new significance for retailers, brought about by propitious economic policies and favorable demographics. Notably, consumption accounts for over 70% of the country’s GDP thanks to rising jobs, incomes and steady overseas remittances. The country also boasts a relatively young, skilled and English-speaking population which has been a huge draw for offshore business services. Reputed brands such as M&S, Guess, Uniqlo, H&M, Esprit, Aeropostale, Charles and Keith and American Eagle etc. have already established operations in Manila, the nation’s capital, and are considering expansion within the country keeping in mind a continued strong growth in BPO, tourism and service industries in tier II cities such as Cebu and Davao. As solid economic prospects spur urbanization and rising incomes, and considering further the size of its young population, domestic and international retailers stand to find abundant opportunities throughout the country. The market is dominated by a few major developers including SM Prime, Ayala and Robinsons which, in turn, means retailers have a small number of very important relationships to manage in the country.

**MALAYSIA** The country is not new to branded retail growth and its capital, Kuala Lumpur, is consistently ranked as one of the best shopping cities in the Asia Pacific region. Both luxury retail and fast fashion segments have a well established presence in the city. A strong and young consumer base with an average of 4.5% annual rise in disposable incomes continue to support branded retail growth in the city. Michael Kors, Uniqlo, and Tanga have increased their footprint in the city recently. H&M, Radish Shack, Bikinibun, Longchamp and Lonely Planet are some of the new entrants in the last 12 months. Retail tourism and a positive long-term economic outlook will continue to buoy the retail sector in the city.
CONCLUSION

The retail growth story in Asia, especially in emerging markets, is real and likely to continue over the longer term. Though near-term growth has shifted to a lower gear, long-term prospects remain intact given solid economic growth and relatively favorable demographics, especially in growth markets in South and Southeast Asia. However, continued high growth alone may not be sufficient to boost consumption; policy reforms and significant infrastructure investments are needed for balanced and inclusive growth. The challenge is for retailers to take advantage of this multitude of opportunities in these diverse retail environments, while adapting to complexities that are unique to Asian markets.

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