

Asia Pacific Retail, Q1 2015

Rental growth weakens amid subdued leasing demand

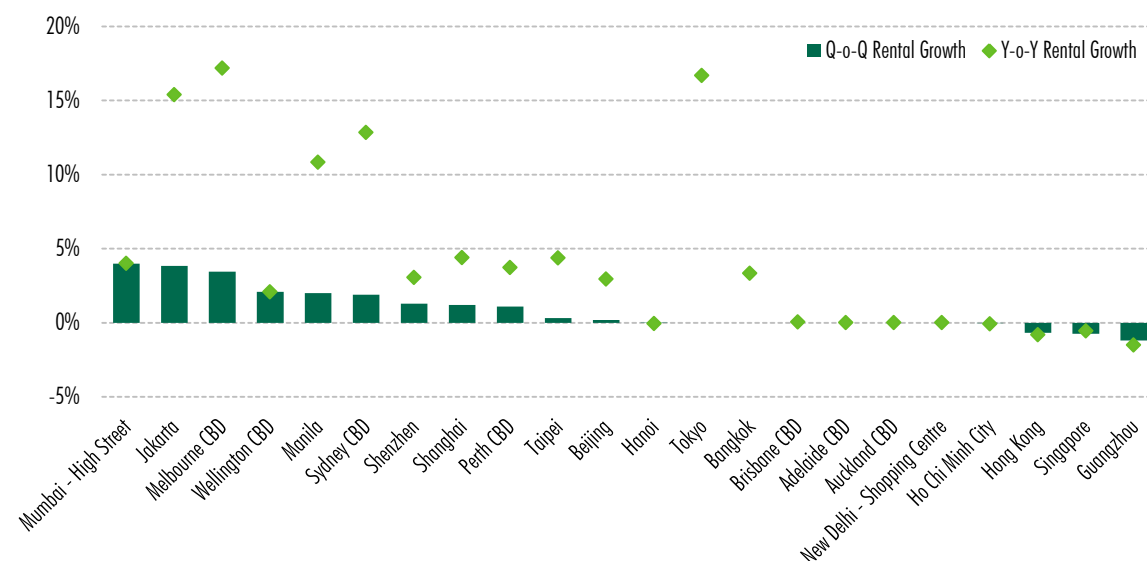
Rents Down
3 Markets

Rents Stable
7 Markets

Rents Up
11 Markets

Retail Sales
3.6% y-o-y¹

Chart 1: Asia Pacific Rental Growth



Source: CBRE Research, Q1 2015.

HOT TOPICS

- Retailers in Asia Pacific remained focused on securing space in **well-managed core properties in prime locations of the best performing cities**. However, this type of space is in short supply.
- **Demand from luxury brands was subdued** in Hong Kong and Mainland China due to the ongoing anti-corruption campaign and the trend for Chinese tourist to purchase high-end goods in other markets such as Europe.
- Fast fashion retailers continued to focus on **expanding in relatively underpenetrated markets** such as Australia and Taiwan.
- Regional rental growth continued to be **supported by the strong performance of markets in Australia**, particularly Melbourne, Sydney and Perth.
- **New retail supply in Asia Pacific this quarter slowed to 4.8 million sq. ft.**, a significant decline on the 17 million sq. ft. of new stock completed the previous quarter.

(1) January to February 2015 cumulative; The retail sales figure covers eight markets in Asia Pacific including Australia, China, Hong Kong, Japan, Singapore, South Korea, Taiwan and Vietnam (in USD)

Retail leasing activity weakened further in Q1 2015 as retailers turned more cautious. The first quarter is also traditionally a quiet period for leasing transactions. The CBRE Asia Pacific Retail Rental Index increased by just 0.5% q-o-q as rental growth continued to lose steam.

Demand during the quarter continued to be led by F&B retailers, with international fast food and confectionary stores particularly active in highly populated emerging markets.

Leasing activity is expected to remain flat in the coming quarters, with the exception of Japan, Australia and Taiwan. Prime retail space will remain limited but a large volume of new retail supply will be completed in decentralised locations. Retailers will stay cautious and there will be very little expansionary demand. These trends are set to result in the further weakening of rental growth over the course of 2015.

ECONOMIC OUTLOOK IMPROVES

Oxford Economics forecasts that economic growth in Asia Pacific will improve slightly to 4.5% in 2015 from 4.3% in 2014. Stronger growth in Japan, India and Thailand is expected to lift regional growth this year. However, growth in China and Malaysia is expected to slow in 2015 as a weak residential property sector and low oil prices, respectively, create a drag on growth.

Weaker consumer confidence in Q4 2014 ensured the Asia Pacific retail market began 2015 on a softer note. Consumer spending in South Korea and Japan remained weak although sales in core shopping districts continued to benefit from the influx of Mainland Chinese shoppers.

The retail environment in Hong Kong weakened further, with retail sales falling by 2.0% y-o-y during the first two months of the year. The retail sector will experience additional pressure following the implementation of a new rule allowing Shenzhen residents only one trip to the city per week, but the impact should be limited.

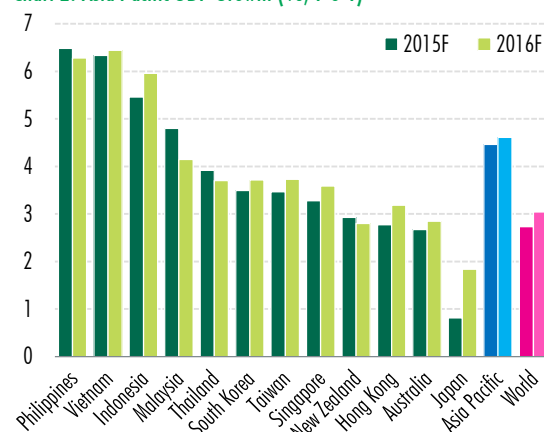
Retail sales in China increased 13.5% y-o-y in the first two months of 2015 but growth in tier I cities continued to lag behind.

STABLE RETAIL SALES GROWTH EXPECTED

Regional retail sales will remain largely stable in 2015. Markets to watch include Australia, where the negative impact of the resources sector slowdown should be offset by stronger consumer, housing and export demand. CBRE expects domestic retail sales growth of around 4.0% to 5.0% in 2015, backed by falling energy prices, lower interest rates and the increasing wealth effect.

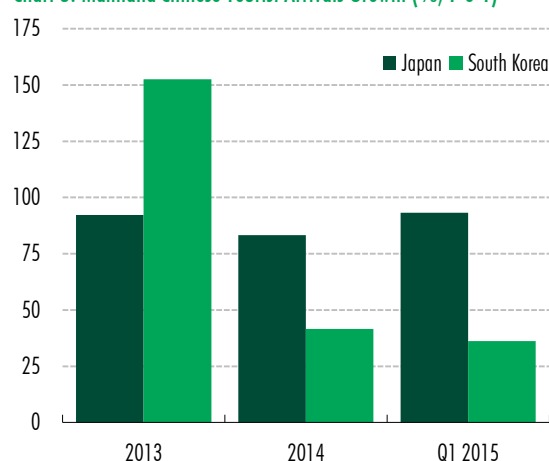
In China, recent data points to slower economic growth. However, greater policy support is expected to ensure the government meets its target of “about 7.0%” GDP growth and 13% retail sales growth. Consensus Economics estimates retail sales growth will ease to 11.4%, slightly lower than the 12% achieved in 2014.

Chart 2: Asia Pacific GDP Growth (% Y-o-Y)



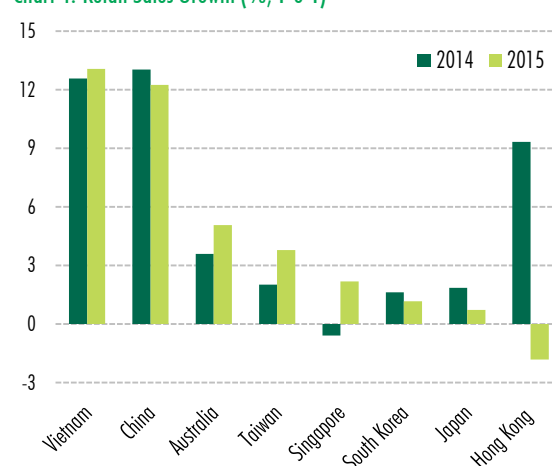
Source: Oxford Economics, April 2015.

Chart 3: Mainland Chinese Tourist Arrivals Growth (% Y-o-Y)



Source: CEIC, April 2015.

Chart 4: Retail Sales Growth (% Y-o-Y)



Source: CEIC, April 2015.

Note: Trailing 12-Month average as of February 2015.

RETAILER DEMAND REMAINS SUBDUED OVERALL

Leasing activity weakened further in Q1 2015 as retailers turned more cautious. The first quarter is also traditionally a quiet period for leasing transactions. Demand remained focused on well-managed core properties in prime locations of the best performing cities. However, such space is in short supply and is hindering retailer expansion in many markets.

Demand continued to be led by F&B retailers, with international fast food and confectionary stores particularly active in highly populated emerging markets. Major cities in the region also saw strong demand from homegrown F&B brands, mainly from South Korea and Japan.

LUXURY SLOWDOWN IN CHINA CONTINUES

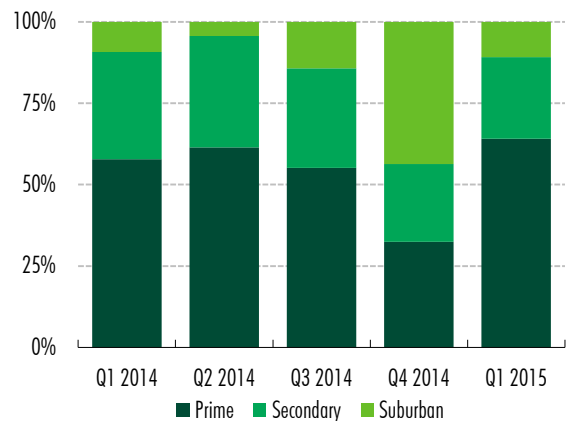
In the luxury sector, enquiries remained focused on Japan and Australia. Southeast Asia also witnessed a surge in luxury openings this quarter but this was mainly due to the opening of the upscale EmQuartier mall in Bangkok.

Demand from luxury brands remained subdued in Hong Kong and Mainland China due to the ongoing anti-corruption campaign and trend for Chinese to purchase high-end goods in other markets such as Europe. In response, a number of major luxury brands adjusted their global pricing policy and have cut prices in Asia. However, the short term outlook in this sector remains challenging. The cautious attitude has spread to bridge brands, with a few operators scaling back expansion plans for 2015.

FAST FASHION EYES AUSTRALIA AND TAIWAN

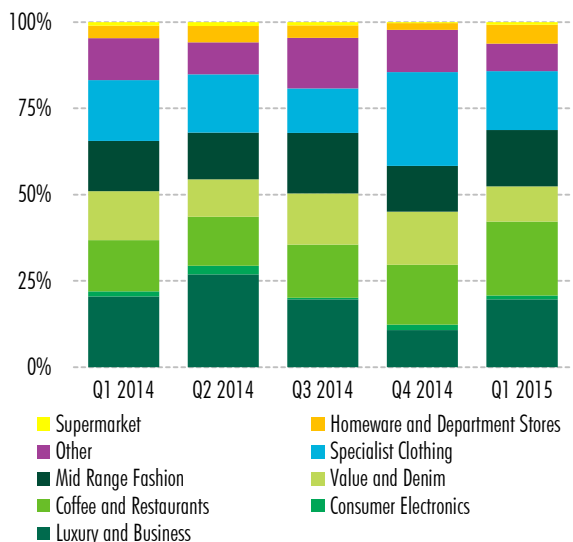
Fast fashion retailers continued to focus on entering and expanding in relatively underpenetrated markets such as Australia, India and Taiwan. Notable new entries this quarter included H&M's first store in Taipei, which was reported to have generated sales revenue of US\$4.8 million in its first two weeks of operation.

Chart 5: New Leases and Openings by Location



Source: CBRE Research, Q1 2015.

Chart 6: New Leases and Openings by Sector



Source: CBRE Research, Q1 2015.

However, the quarter also saw Topshop and Abercrombie & Fitch exit Japan and Australia, respectively, reflecting the competitive environment in this category.

HOUSEWARES RETAILERS ALSO ACTIVE

Other activity came from housewares retailers. This sector has been particularly active in Southeast Asia and Australia due to the growing urban population and booming residential market. Melbourne saw the opening of Australia's first ZARA Home this quarter, with a second store set to open in Sydney later this year. Spotlight and HomePro reportedly plan to open more than 20 stores across Southeast Asia.

LIMITED NEW SUPPLY THIS QUARTER

New retail supply in Asia Pacific this quarter slowed to 4.8 million sq. ft. in Q1 2015, a significant decline on the 17 million sq. ft. of new stock completed in Q4 2014. Shanghai saw the completion of the first new mall in a core area since 2013. Bangkok accounted for most of the remainder of the new supply.

The remainder of 2015 is expected to see the completion of around 65 million sq. ft. of new retail supply, with Bangkok, Shenzhen and Beijing contributing the majority of the space. Despite the sizable supply pipeline, new retail supply in core locations will remain limited. For example, Tokyo will see the completion of 1.4 million sq. ft. of new retail supply this year but the majority will be located away from the main streets. In Sydney, landlords are responding to strong demand by converting office stock to retail space and increasing the retail components of new CBD office buildings.

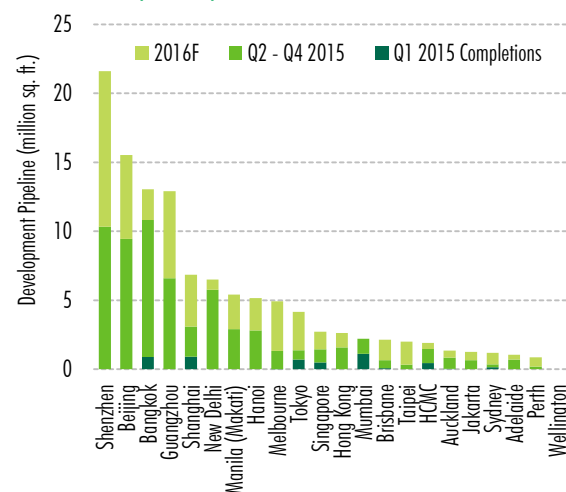
RENTAL GROWTH SLOWS FURTHER

The CBRE Asia Pacific Retail Rental Index increased by just 0.5% q-o-q in Q1 2015 as rental growth continued to lose steam. Rental declines in Guangzhou and Hong Kong meant Greater China recorded its first quarterly rental decrease since Q2 2009. Singapore also recorded a moderate rental correction as sluggish leasing demand was insufficient to absorb new supply.

Tokyo and Taipei continued to record strong leasing demand but the lack of available stock in prime locations inhibited leasing transactions and prevented rental growth. Rents in prime locations of Tokyo have been flat for two consecutive quarters after rising rapidly since 2013.

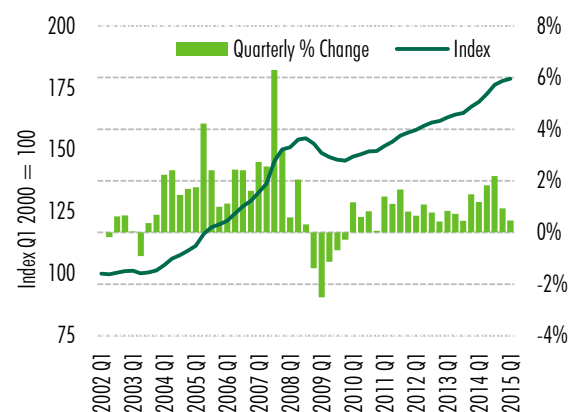
Regional rental growth continued to be supported by the healthy performance of Australian markets such as Melbourne, Sydney and Perth, where international retailers displayed strong demand. In New Zealand, Wellington registered its first rental growth in three years.

Chart 7: Development Pipeline



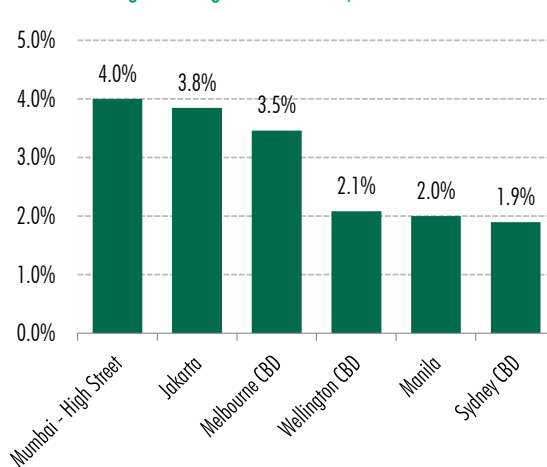
Source: CBRE Research, Q1 2015.

Chart 8: Asia Pacific Retail Rental Index



Source: CBRE Research, Q1 2015.

Chart 9: Strongest Average Rental Growth, Q-o-Q



Source: CBRE Research, Q1 2015.

LEASING DEMAND SET TO REMAIN FLAT

Leasing activity in Asia Pacific is expected to remain flat, with the exception of Japan, Australia and Taiwan. New prime retail space will be limited but a large volume of new retail supply will be completed in decentralised locations. Retailers will stay cautious and there will be very little expansionary demand. These trends will result in the further weakening of rental growth over the course of the year.

Positive markets will include Tokyo and Taipei, where rental growth will continue but at a slower pace due to the shortage of prime quality space in core shopping districts. Key markets in Australia will also be comparatively upbeat, with redevelopment and renovation work in the Sydney and Melbourne CBD set to provide retailers with more opportunities to expand and support further rental growth.

Rental growth in Manila and Jakarta will remain positive on the back of steady growth in consumption and the completion of more high quality retail space. Leasing activity in Vietnam is expected to gradually pick up, particularly in Ho Chi Minh City, which is finally set to emerge from the rental down cycle.

CHINA LIKELY TO EXPERIENCE WEAKNESS

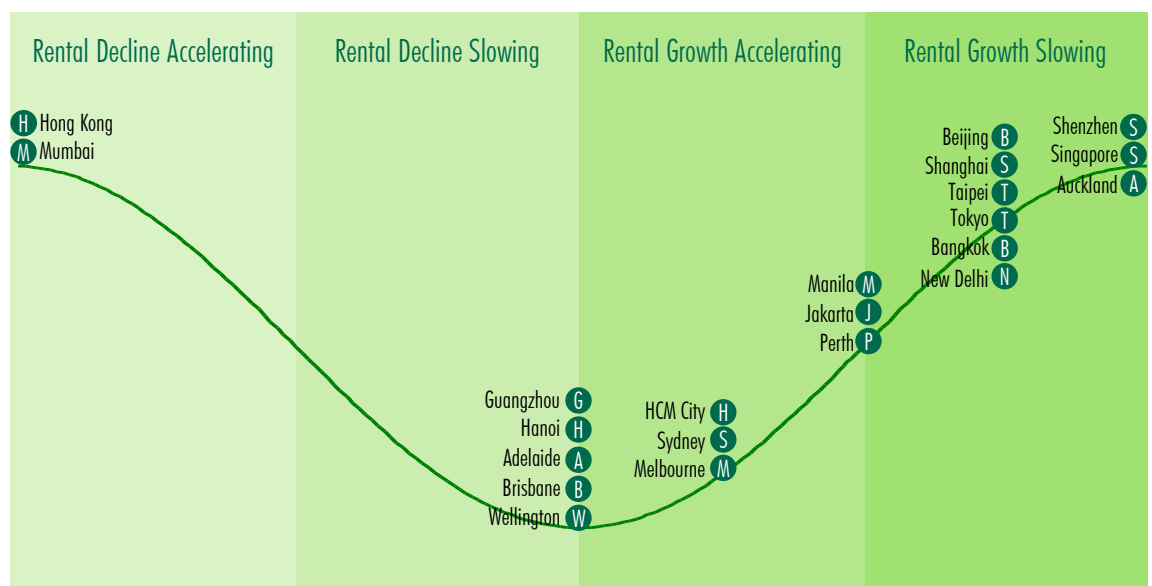
A number of markets in China will experience stronger vacancy pressure in the coming quarters. Guangzhou in particular is expected to see a further decline in rents as new supply comes on stream. Other laggards will include Hong Kong and Singapore but widespread closures and a sharp fall in rents are unlikely.

STRONGER FOCUS ON KEY MARKETS

The flow of new retail entrants into Asia Pacific will remain stable this year. However, retailers will have a greater focus on key regional markets and the rate of expansion will be slower. F&B operators are expected to continue to account for the bulk of demand whilst activity in the luxury sector will be driven by emerging brands.

Retailers in Asia Pacific are advised to focus on rationalising their existing store network, improve their operational efficiency and formulate a long term real estate strategy for the region. In those markets which have turned more tenant-favourable, retailers should take advantage of opportunities to negotiate more attractive commercial terms, especially in newly completed projects.

Chart 10: Asia Pacific Rental Cycle Q1 2015



Source: CBRE Research, Q1 2015.

Table 1: Shopping Centre Prime Retail Rents

Country	City	Per local measurement	Prime rent local	US\$/sq. ft. per annum	Q-o-Q change (%)	Y-o-Y change (%)
China	Beijing	RMB sq. m. p.d.	122	665	0.0	0.0
China	Shanghai	RMB sq. m. p.d.	95	520	0.0	0.0
China	Guangzhou	RMB sq. m. p.d.	105	572	0.0	0.0
China	Shenzhen	RMB sq. m. p.d.	64	351	5.4	8.3
Philippines	Manila	PHP sq. m. p.m.	1,611	40	2.0	10.3
Singapore	Singapore	S\$ sq. ft. p.m.	52	457	-0.9	2.8
Thailand	Bangkok	THB sq. m. p.m.	3,200	110	0.0	3.2
Vietnam	Ho Chi Minh City	US\$ sq. m. p.m.	250	279	38.9	25.0
Vietnam	Hanoi	US\$ sq. m. p.m.	120	134	0.0	0.0
India	New Delhi	INR sq. ft. p.m.	1,200	230	0.0	0.0
India	Mumbai	INR sq. ft. p.m.	650	125	4.0	4.0

Source: CBRE Research, Q1 2015.

Table 2: High Street Prime Retail Rents

Country	City	Per local measurement	Prime rent local	US\$/sq. ft. per annum	Q-o-Q change (%)	Y-o-Y change (%)
Hong Kong	Hong Kong	HK\$ sq. ft. p.m.	2,800	4,334	0.0	0.0
Taiwan	Taipei	NT\$ sq. m. p.m.	11,338	404	0.0	0.8
Japan	Tokyo	JPY tsubo p.m.	350,000	984	0.0	16.7
India	New Delhi	INR sq. ft. p.m.	1,500	288	0.0	0.0
Australia	Sydney	A\$ sq. m. p.a.	9,975	708	0.0	11.1
Australia	Melbourne	A\$ sq. m. p.a.	10,000	710	3.0	23.8
Australia	Adelaide	A\$ sq. m. p.a.	3,413	242	0.0	0.0
Australia	Brisbane	A\$ sq. m. p.a.	5,145	365	0.0	0.0
Australia	Perth	A\$ sq. m. p.a.	3,830	272	1.4	6.7
New Zealand	Auckland	NZ\$ sq. m. p.a.	3,559	248	0.0	0.0
New Zealand	Wellington	NZ\$ sq. m. p.a.	2,449	171	2.1	2.1

Source: CBRE Research, Q1 2015.

Note:

The prime retail rents represent the typical “achievable” open market headline rent which an international retail chain would be expected to pay for a ground floor retail unit (either high street or shopping centre depending on the market) of up to 200 sq.m. of the highest quality and specification and in the best location in a given market. The quoted rents reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. In these circumstances, the quoted figure will be more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification apply. The figures exclude any leasing incentives or “key money” (premium, or initial payment, to secure the right to occupy the unit).

Local currency rents for certain markets are expressed in terms of Zone A (ITZA), an approach which places a higher value on certain parts of a shop more than others. The number reported is the value placed on the most expensive part of the shop and will therefore be much higher than the average per sq m value for the entire unit.

Table 3: Key Leasing Transactions

Market	Address	Size (sq. ft)	Occupier	Retail sector	Retailer Country Origin
Shanghai	Parkside Plaza	32,292	Legoland	Others	Denmark
Seoul	235 Banpo Street	16,146	Aston Martin	Others	United Kingdom
Auckland	203 Queen Street	13,993	Topshop	Value and Denim	United Kingdom
Guangzhou	The Grandview Mall	12,917	Marks & Spencer	Homeware and Department Store	United Kingdom
Tokyo	Ginza	10,782	Ermenegildo Zegna	Luxury and Business	Italy
Jakarta	Plaza Senayan	5,382	The Melting Pot	Coffee and Restaurants	United States
Hong Kong	Queen's Road Central	4,370	Mercedes Benz	Others	Germany
Hanoi	Hoan Kiem	3,875	Prada	Luxury and Business	Italy
Melbourne	Highpoint Shopping Centre	3,337	ZARA Home	Homeware and Department Store	Spain

Source: CBRE Research, Q1 2015.

Table 4: Major New Developments

Market	Submarket	Development Name	Expected Date of Completion	Estimated size (sq. ft.)
Beijing	Suburban	Harmony Plaza	Q3 2015	1,506,946
Shanghai	Nanjing Road West	Crystal Galleria	Q3 2015	785,765
Guangzhou	Baiyun New Town	CAPITAMALL SKY +	Q2 2015	925,695
Shenzhen	Futian	China Land Shopping Mall	Q2 2015	645,834
Hong Kong	Wan Chai	Avenue Walk	Q2 2015	86,000
Taipei	Xinyi Planned Area	Breeze Center (Cathay A3)	Q4 2015	320,249
Tokyo	Ginza	Ginza 5-chome Project	Q3 2015	534,995
Singapore	Outside Central Region	Waterway Point	Q4 2015	370,000
Bangkok	Bang Yai	Central WestGate	Q2 2015	3,767,365
Hanoi	Non-core	Mo Market Shopping Centre	Q2 2015	260,734
HCMC	Non-CBD	SC VivoCity	Q2 2015	775,001
Manila	Muntinlupa City	Festival Mall Expansion	Q2 2015	613,542
Jakarta	Prime	PIK Mall	Q3 2015	301,389
Mumbai	Navi Mumbai	L&T Seawoods	Q4 2015	1,000,000
New Delhi	Noida	Logix City Center Mall	Q3 2015	1,200,000
Adelaide	CBD	15 Rundle Mall	Q4 2015	4,305
Brisbane	CBD	170 Brisbane	Q4 2015	87,725
Melbourne	CBD	Australia on Collins	Q4 2015	96,875
Sydney	CBD	Barangaroo Commercial Building C3	Q4 2015	75,573
Auckland	CBD Fringe	Wynyard Quarter	Q2 2016	11,238

Source: CBRE Research, Q1 2015.

City	Market Highlights	Demand	Rents
Beijing	<ul style="list-style-type: none"> Vacancy rose to 7.1% q-o-q following the closure of a department store. The large volume of new supply is expected to push up vacancy. Rents will remain stable. 	▶	▲
Shanghai	<ul style="list-style-type: none"> Rental growth was driven by selected projects. Most landlords kept asking rents unchanged. The vacancy rate will rise slightly but there is still room for marginal rental growth. 	▶	▲
Guangzhou	<ul style="list-style-type: none"> Demand remained lacklustre in the traditional core sub-markets of Yuexiu and Liwan. The downtrend in rents will continue there but new retail clusters like Tianhe Road may see some growth. 	▶	▼
Shenzhen	<ul style="list-style-type: none"> F&B tenants continued to account for the bulk of demand and majority of new openings. Around 10 million sq. ft. new retail space will be completed in 2015, mostly in Futian and Bao'an. 	▲	▶
Hong Kong	<ul style="list-style-type: none"> Leasing activity remained sluggish due to the change in tourist consumption patterns and concerns over the outlook for visitor arrivals. Rental declines are more pronounced in Central and Causeway Bay. 	▶	▼
Taipei	<ul style="list-style-type: none"> Fast fashion retailers continued to explore market entry. Casualwear and sportswear retailers were looking to expand. Rental growth is expected to lose steam due to the shortage of large spaces for flagship stores. 	▲	▲
Tokyo	<ul style="list-style-type: none"> Domestic and international luxury, fast fashion and F&B retailers displayed strong expansionary demand. Actual transactions were limited by the lack of available stock. Rents were flat after surging over the past year but secondary areas continued to show upward momentum. 	▲	▲
Seoul	<ul style="list-style-type: none"> International brands continued to seek high profile street shops in core shopping areas. Local shopping districts are struggling due to weak domestic consumption demand. 	▶	▼
Singapore	<ul style="list-style-type: none"> Rents experienced further downward pressure. Orchard Road recorded its first rental correction since 2011. The sizable supply pipeline and weak domestic consumption sentiment are dampening the market outlook. Further rental declines are expected. 	▼	▼
Manila	<ul style="list-style-type: none"> Rents recorded further gains in Q1 2015 amid stronger demand from international brands. Domestic retailers are more hesitant to expand into new malls anchored by foreign brands. 	▲	▲
Bangkok	<ul style="list-style-type: none"> Retail sales in Bangkok are expected to improve on the back of the recovery in private consumption and tourism. Competition to attract tenants will increase once new large scale shopping centres are completed. 	▲	▶

Note: Demand and rental arrows represent the outlook for the next six months.

City	Market Highlights	Demand	Rents
Ho Chi Minh City	<ul style="list-style-type: none"> Average rents continued to be pushed down by the increasing supply in suburban areas. New projects in non-CBD areas and the completion of the Metro Line system will alter the retail landscape, with District 2 expected to emerge as new retail hub. 	▶	▼
Hanoi	<ul style="list-style-type: none"> The leasing market stabilised in Q1 2015, with mild rental growth and vacancy holding firm. The large pipeline of new supply is prompting landlords to refine their tenant mix. More shopping centres are adopting turnover rental clauses. 	▶	▼
Jakarta	<ul style="list-style-type: none"> No new supply was completed this quarter and rents continued to increase. The leasing market will remain active on the back of continued expansionary demand from international retailers. 	▲	▶
New Delhi	<ul style="list-style-type: none"> The period saw limited leasing activity on high streets. Retailer interest is focused on new shopping centres in South Delhi and Noida which are expected to be completed this year. 	▶	▶
Mumbai	<ul style="list-style-type: none"> Rents in Central Mumbai rebounded after experiencing a dip in Q4 2014. The shortage of quality retail space and growing demand will fuel rental growth in malls in Central Mumbai and Western Suburbs. 	▶	▶
Sydney	<ul style="list-style-type: none"> Rental growth in prime locations will be driven by bridge brands and luxury retailers. CBD landlords are trying to capture leasing demand by converting office space to retail use. New developments also have a higher portion of retail space. 	▲	▲
Melbourne	<ul style="list-style-type: none"> Strong leasing demand from luxury retailers helped push up rents by 3.5% q-o-q this quarter. There continues to be strong leasing demand from F&B operators for spaces near residential developments. 	▲	▲
Perth	<ul style="list-style-type: none"> Rental growth slowed this quarter and is likely to remain relatively stable this year. Vacancy in the CBD increased slightly to 14.7%. Leasing momentum remained sluggish but there was strong demand from F&B chains. 	▶	▶
Brisbane	<ul style="list-style-type: none"> Prime locations remain most sought after but retailers are hesitant to pay higher rents. CBD vacancy was 8.8%. Demand remained driven by F&B operators. 	▶	▶
Adelaide	<ul style="list-style-type: none"> CBD rents were unchanged in Q1 2015 as demand remained relatively weak. Leasing activity is expected to pick up once more international brands look to enter the market. 	▶	▶
Auckland	<ul style="list-style-type: none"> Upward pressure on CBD rents continued but secondary locations along the main strips did not witness any spillover in demand. 	▶	▶
Wellington	<ul style="list-style-type: none"> CBD rents were up 2.4% q-o-q in Q1 2015 but the market remains at the bottom of the trough. Leasing momentum was subdued and further rental growth this year is unlikely this year. 	▶	▶

Note: Demand and rental arrows represent the outlook for the next six months.

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