



Shopping Centres

F&B remains in the ‘spotlight’

During 2Q16, retail rents for the most expensive locations in shopping centres remained relatively stable. Of the 18 featured markets, only two (Auckland and Manila) saw a quarterly rental increase of 1% or more for the most expensive locations, while the remainder mostly recorded flat rents. The aggregate Asia Pacific Retail Rental Index increased 0.3% quarter-on-quarter, in line with the growth in 1Q16.

Greater China

- Retailers continued to face a challenging operating environment in Hong Kong with declines in inbound tourism and retail sales persisting. However, the rate of decline slowed in 2Q16 with retail spending down 8.3% y-o-y (-12.5% in 1Q) while visitor arrivals dropped by 7.4% (-10.9% in 1Q).
- In Beijing, slowing sales growth has led landlords to look to new approaches to boost footfalls including virtual reality (VR) concepts. In suburban shopping centres, F&B and kids’ brands have increased their presence and are accounting for more than half of tenants at newly opened community malls.

- Affordable luxury retailers expanded further into Shanghai’s decentralised markets, while luxury brands continued to close underperforming stores. Demand from mid-range F&B operators remained strong, though growing competition spurred several stores to engage customers with more creative experiences.
- F&B and experience-related retailers have supported leasing activity in Guangzhou and landlords are adjusting tenant mixes to have a greater weighting of these categories. Adidas opened its first football flagship/concept store in the world at Tee Mall in Tianhe North.

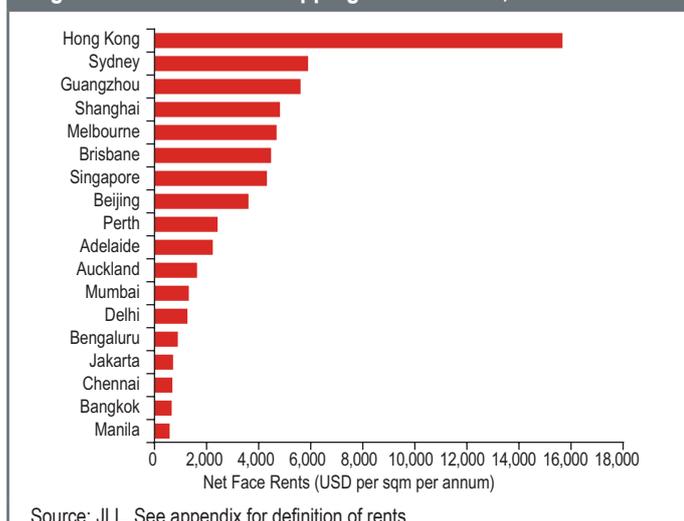
Southeast Asia

- Retailers in Singapore focused funds and human resources towards profitable outlets, whilst consolidating loss-making and unprofitable outlets. There has been a cutback in discretionary spending and a gradual shift in the shopping behaviour of domestic consumers towards shopping at neighbourhood malls that have housed an increasing number of brand-name retailers over the years.
- Local and international brands remain interested in entering or expanding in Manila. Brands that opened their first stores in 2Q16 included American restaurant Texas Roadhouse in Uptown Mall, Singaporean brand Pezzo Pizza in Robinson’s Place Manila and Canadian apparel brand Joe Fresh in Shangri-La Plaza. Notable expansions during the quarter were Baskin Robbins, Ippudo Ramen, Estee Lauder, Bobbi Brown and Kipling.
- A lack of prime mall developments in Jakarta’s CBD is limiting expansion options for retailers and pushing them to explore decentralised locations or other cities. Top performing malls continued to report waiting lists for prime units.

Australia / New Zealand

- The ongoing expansion of international retailers continued to bolster leasing activity in Australia, and is acting as stimulus for local retailers to keep growing their store networks and refresh store fit-outs and branding. Major international fast fashion retailer H&M announced four new store commitments during 2Q16, at Pacific Werribee and Chadstone in Victoria, Wollongong Central in New South Wales and Grand Central, Toowoomba in Queensland.

Figure 1: Asia Pacific Shopping Centre Rents, 2Q16

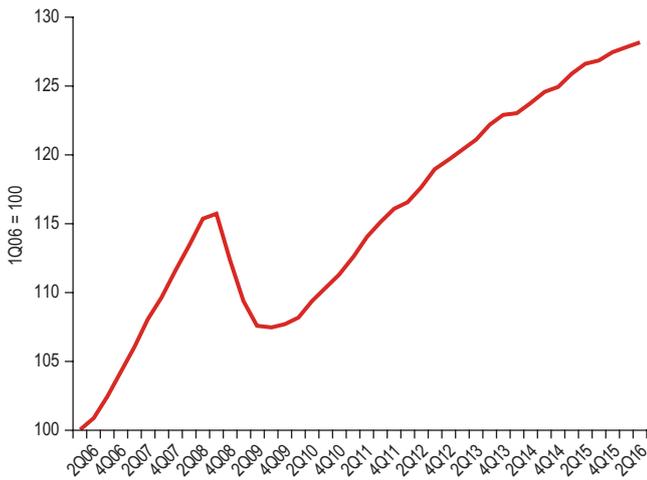


India

- Quality malls in India continued to garner strong retailer interest including from international brands. In Delhi, Charles & Keith opened a store in Ambience Mall, Gurgaon and DLF Mall of India, Noida. In Mumbai, H&M took up space in High Street Phoenix, Lower Parel as well as Phoenix Market City, Kurla.

Slow rental growth to remain the norm

Figure 2: Asia Pacific Retail Rental Index



Source: JLL. See appendix for definition of rents

- Demand in China's Tier 1 markets should continue to be driven by experience-oriented tenants such as F&B and brands targeting children. However, fast fashion may be nearing a saturation point in some markets and this could lead to slower rental growth going forward. Large forecast supply is likely to restrain rental growth in Tier 1 markets. In Hong Kong, a cloudy economic outlook and weakened local consumption should see difficult operating conditions persist.
- In Singapore, landlords with the ability to differentiate their malls by bringing in new lifestyle concepts that appeal to consumers should weather the economic slowdown better.
- A mild rental recovery is expected in Australia while leasing activity should continue to be supported by international retailer expansion.
- With limited availability of quality mall space in India, retailers are likely to continue to look towards prominent high street locations or upcoming malls for space.

Table 1: Asia Pacific Shopping Centre Rents

		Average Rent 2Q16 (USD per sqm per annum)	Quarterly Change 2Q16 vs 1Q16 (Local Currency)	Yearly Change 2Q16 vs 2Q15 (Local Currency)
Hong Kong	Central	15,664	0.0%	0.2%
Sydney	CBD	5,896	0.2%	1.0%
Guangzhou	Tianhe CBD	5,592	-0.2%	4.1%
Shanghai	West Nanjing Road	4,806	-2.1%	-2.2%
Melbourne	CBD	4,682	0.2%	0.6%
Brisbane	CBD	4,466	0.0%	0.0%
Singapore	Orchard Area/District 9	4,307	-0.6%	-1.4%
Beijing	Wangfujing Road	3,606	0.1%	2.2%
Perth	CBD	2,419	0.0%	0.0%
Adelaide	CBD	2,230	0.0%	0.0%
Auckland	New Market	1,638	2.2%	5.5%
Mumbai	Prime South	1,319	0.0%	0.4%
Delhi	Prime South	1,258	0.0%	0.2%
Bengaluru	Prime City	892	0.0%	0.2%
Jakarta	CBD	698	0.0%	3.9%
Chennai	Prime City	666	0.0%	0.0%
Bangkok	Central Bangkok	650	-0.1%	1.3%
Manila	Makati CBD	577	2.0%	7.9%

Source: JLL. See appendix for definition of rents

High Streets

Retailer demand mixed

Greater China

- Leasing activity in Hong Kong improved as landlords offered greater rental discounts for lease renewals. Grocery and discount retailers took advantage of the soft market to secure short-term leases in traditional prime shopping areas while mass market retailers, sportswear and cosmetic brands were among the few looking to expand. Mass market fashion retailer Monki renewed its lease of a street shop (5,200 sq ft) on Granville Road in Tsimshatsui, reportedly for a slightly lower HKD 600,000 per month.
- In Shanghai, several existing centres in traditional retail submarkets are undergoing tenant adjustments while the 43,000 sqm Yanguang Center near Huaihai Road completed refurbishment in 2Q16 with a focus on F&B.

North Asia

- International retailers remain interested in Tokyo's prime areas. However, some operators have become more cautious about expansion as changing spending patterns of tourists are impacting luxury goods sales. Pandora opened a new store in Omotesando.
- Despite some ongoing weakness in the retail market due to lingering economic uncertainty, international retailers continued to open flagship stores in Seoul with shoe brand Birkenstock launching in Apgujeong-dong and sportswear retailer Scelido opening a store in Nonhyeon.

Southeast Asia

- Retailers in Singapore continued to face the challenges of falling consumer spending, labour constraints, high operating costs and competition from online retailers leading to their attempts to maximise store portfolios, returns and operational efficiency.

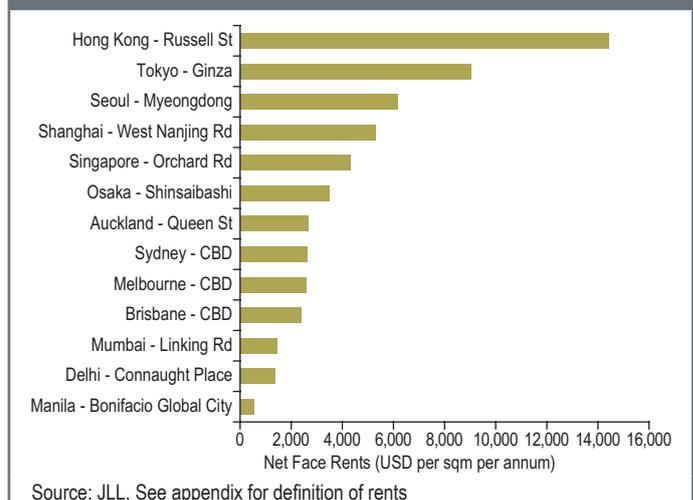
Australia / New Zealand

- There was strong upward momentum for rentals at the top end of the market in Auckland amid the continued entry of international retailers and closure of a downtown shopping mall which pushed retailers into the surrounding area. Local operators are struggling to compete for the limited pool of space.

India

- Prominent high streets in India saw a resilient performance, especially in areas where there is an absence of quality malls. During 2Q16, Zara took up a 50,000 sq ft prime high street space in South Mumbai, which is reportedly the largest transaction ever by any international brand in the country.

Figure 3: Asia Pacific High Street Rents, 2Q16



Appendix

Shopping Centres

Note 1: Figure 1 & Table 1 rents are average net face rents for prime level locations in the best prime shopping centres and on a net lettable area basis. Net face rents are calculated excluding the tenant outgoing costs and landlord incentives are not taken into account.

The most expensive locations in shopping centres can garner rents in excess of three or four times that of the average mall level. Limited available space due to strong demand and a lack of new additions in the most expensive & central locations contribute greatly to the rental gap. A higher level of sales activity and increased brand exposure are core reasons retailers seek these locations.

Note 2: Figure 2 is a stock-weighted average of average net face rental movements for prime shopping centres across Asia Pacific.

High Streets

Note 1: Rents are average net face rents for the high street(s) and on a net lettable area basis.

Note 2: Rental figures for Australia are for strip shops along these streets: Sydney – Pitt, George & Castlereagh; Melbourne – Collins & Bourke; Brisbane – Albert & Edward; and which are not a part of prime shopping centres.