

Taking stock of retail

As the effects of Covid-19 and online retail bite, how must physical stores evolve to survive?

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The World Economic Forum predicts that 1.5 billion more Asians will have joined the middle class by 2030, making the region home to nearly 66% of the world's middle-class citizens

Retail real estate, still evolving to meet the needs of digital consumers, was hit hard by the pandemic. However, investors should not write it off.

Data from Real Capital Analytics shows global sales of retail property slumped 35% in 2020 compared with an all-sector fall of 29%. Furthermore, retail's relative importance to investors has been on the slide. In 2020, it only accounted for 14% of transactions, down from 24% a decade ago.

The challenge to bricks-and-mortar retail from online shopping isn't new, but was heightened by the pandemic. In all markets, but especially those with long lockdowns, retail spending migrated online. Statista data shows e-commerce as a percentage of total global retail sales rose to 18.0% in 2020, from 13.6% in 2019. This makes the outlook for retail property look grim, and indeed there are markets, particularly the US and UK, that are oversupplied with retail: in the US, 12,200 stores closed in 2020, according to CoStar data. Nonetheless, physical stores still account for 84% of retail sales, even during a global pandemic.

The outlook for retail is not uniformly bad: there are bright spots and investors would be wise to take note. People may not have felt like buying a new outfit during lockdown, but they bought groceries. Supermarkets, which remained open throughout, have traded well and Savills data shows supermarket transaction volumes in Europe were 40% above the five-year average last year. European retail warehouses and supermarkets, broadly covering the convenience retail sector, made up 40% of transactions last year.

Reimagining the shopping centre

Elsewhere, Asia-Pacific retail transaction volumes decreased last year. However, growing economies and rising household wealth, youthful demographics and rapid adaptation to omni-channel retail point to strong recovery. Indeed, China has seen crowds heading back to its shopping centres. This is in spite of the country having one of the highest e-commerce penetration rates in the world; almost a third of all Chinese retail sales happen online.

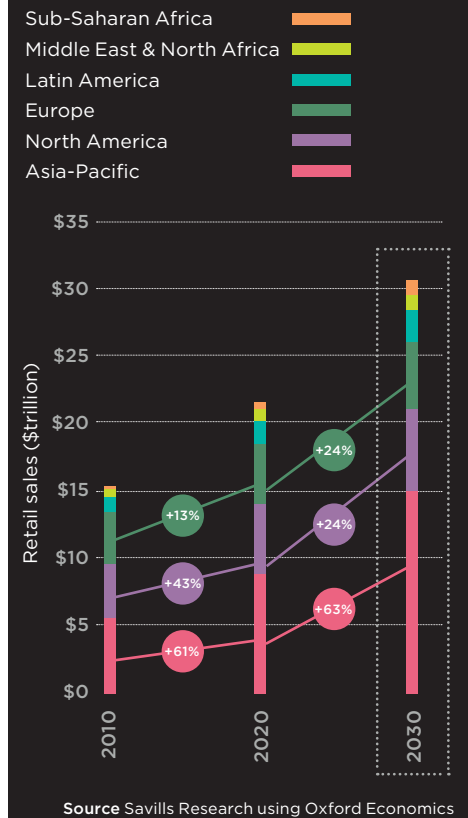
According to Oxford Economics, from 2010 to 2020 the compound annual growth rate for Asia-Pacific retail sales was more than double that of the rest of the world. This is forecast to rise to just under half of all global retail sales by 2030 (see chart). The region is also relatively undersupplied with retail. China, for example, has only half the retail space per head compared with Australia, but it is only growing retail space per capita at around 1% per year.

The World Economic Forum predicts that 1.5 billion more Asians will have joined the middle class by 2030, making the region home to nearly 66% of the world's middle-class citizens. Markets such as India, Vietnam and the Philippines will see huge numbers join the consumer ranks. These countries, along with China, will generate millions of wealthy citizens keen to travel and buy luxury goods.

In markets such as China, retail real estate has evolved alongside e-commerce, enabling Asian retailers and retail landlords to get to grips with omni-channel retail more swiftly than their counterparts in the US and Europe.

The shopping centre also occupies a different position in Asian society: it is not just a place to shop, but a vital community centre for families living in small flats. Location helps too:

Global retail sales by region



modern retail in Asia tends to be linked to either housing developments or large mixed-use schemes located on transport nodes.

Savills has been examining how retail landlords can adapt their space to change, in its *Re:Imagining Retail* reports. Tom Whittington, Director, Retail and Leisure Research, Savills UK, says: "Retail spaces need to diversify in order to survive and thrive. This does not just mean adding more food and beverage or leisure, it means providing a genuine mix of uses, including workspace. Solutions will be different, depending on location and asset type, but it is hard to imagine any shopping centre staying 100% retail and leisure in the future."

"Owners of retail space need to be there for the long term and have to be flexible about how they lease their space. This will build resilience and optimise both occupation rates and how people use and move around the space. It might be better to think about the shopping centre not as a retail scheme, but as a consumer hub."