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What the Coronavirus Outbreak Means for Retail Real Estate in 2020 and Beyond

INTRODUCTION

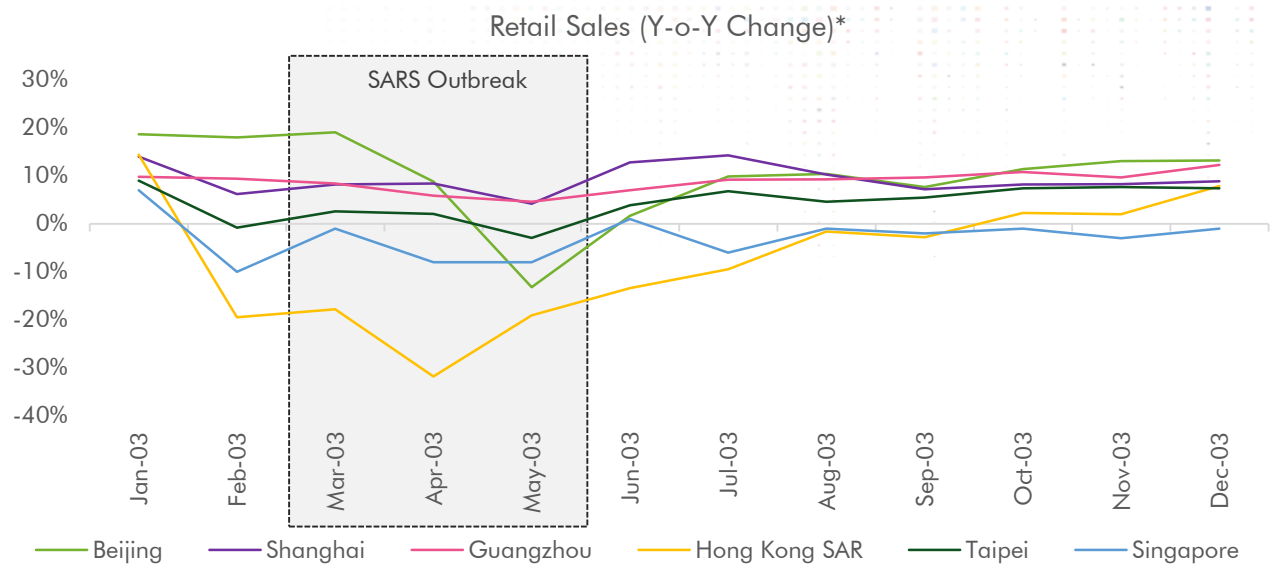
Retail has been one of the sectors most affected by the coronavirus (COVID-19) outbreak, with weaker consumption sentiment, shortened operating periods and a regional tourism slowdown already costing the industry a huge amount of lost revenue.

While it is difficult to estimate when the outbreak will end, most epidemiologists expect the situation to be under control by the end of H1 2020. Based on the SARS outbreak in 2003, the market is likely to recover in H2 2020¹.

In Greater China, where the impact has been most severe, discretionary spending has fallen significantly. Many retail stores and malls temporarily closed or significantly reduced their trading hours from late January to February, a traditional peak shopping period during the Chinese New Year holiday. F&B, fashion, entertainment (most notably gyms and cinemas) and lifestyle segments have been hit especially hard.

¹ Why the Coronavirus (COVID-19) Outbreak Could Have a Lasting Impact on Real Estate, CBRE Research, February 2020.

Figure 1: Y-o-Y change in Greater China and Singapore retail sales during SARS



Note: * Y-o-Y change in monthly retail sales for Beijing, Shanghai and Guangzhou, Hong Kong SAR and Taipei (representing retail sales of Taiwan market); Y-o-Y change in monthly retail sales index excluding motor vehicles for Singapore
 Source: CEIC, National Statistics Bureau, Guangzhou Statistics Bureau, Census and Statistics Department of Hong Kong SAR, Taipei (representing Taiwan market) - Ministry of Economic Affairs, Department of Statistics of Singapore, February 2020

Elsewhere, the suspension of direct flights from Mainland China or the imposition of restrictions on travel to and from affected cities has led to a sharp decline in Mainland Chinese tourist arrivals, which has affected retailers and shopping centres in major regional markets such as Singapore, Tokyo and Seoul.

However, it isn't all bad news for retail. With consumers in many markets forced to shop online for essentials, omnichannel grocery retailers and F&B platforms have reported a surge in sales – a trend that could have long-term consequences for the retail industry.

This ViewPoint by CBRE Research discusses the steps retailers and landlords have already taken in response to the COVID-19 outbreak and identifies some potential longer-term measures – all of which could have a lasting impression on retail real estate.

Figure 2: Online grocery shopping is rapidly gaining momentum

Redmart

In Singapore reported a:

300% increase in average weekly orders

Note: Figures in February 2020
 Source: CNBC [\[link\]](#), February 28 2020

HKTVMall

In Hong Kong SAR reported a:

165% y-o-y increase in average daily orders

Note: Figures in February 2020
 Source: HKTVMall [\[link\]](#), March 3 2020.

SHORT-TERM MEASURES

#1 Enhance Safety for Shoppers and Employees

Many retailers in Greater China closed store networks completely following the outbreak while several shopping centres have shuttered or shortened trading hours. Stores and malls that do open are advised to focus on providing a safe and healthy environment for staff and customers, with a strong emphasis on mitigation strategies such as improving hygiene and installing temperature sensors at entrance to detect individuals with abnormal body temperatures.

Retailers providing the conveyance of goods are offering contactless delivery whereby orders are left at designated locations for customers to collect – thereby minimising human-to-human contact. Food delivery company Meituan reported that more than 80% of orders in Mainland China it received between January 26 and February 8 requested contactless delivery².

#2 Display Social Responsibility

Several landlords in Greater China have introduced measures designed to demonstrate their care for loyal customers. In Guangzhou, K11 has collaborated with a medical group to offer free online medical consultations on WeChat for its regular customers, while in Hong Kong SAR, Chinese Estates Holdings has been distributing face masks to members of its loyalty programme.

#3 Strengthen Grocery and Food Omnichannel Platforms

While many traditional brick-and-mortar retailers are struggling, those with omni-channel platforms, especially in the grocery and fresh food related categories, have reported a surge in sales. JD.com registered a 400-500% y-o-y increase in fresh food sales during Chinese New Year³. However, deliveries have been impacted due to a range of issues including the sudden surge in demand, warehouse hygiene and sanitisation, a shortage of staff and restrictions on movement in and out of affected areas.

There was a surge in demand for online food delivery as many people avoid eating out and some restaurants were temporarily closed. In Singapore, Deliveroo recorded a 20% increase in orders from 27 January to 16 February⁴, while in Korea, local food delivery operator Yojiyo reported an 11% increase in deliveries from 1 February to 16 February, compared to January 6 to January 21⁵. The number of enquiries from restaurant operators seeking information about delivery has increased steadily in recent weeks, suggesting that many groups are considering selling via this format.

Figure 3: Hotpot delivery in Mainland China is gaining traction



Source: CBRE Research, February 2020.

² Business Insider [\[link\]](#), February 19, 2020.

³ Food Navigator- Asia.com [\[link\]](#), February 12 2020

⁴ Singapore Business Review [\[link\]](#), February 21, 2020.

⁵ Pulse News.com [\[link\]](#), February 20, 2020.

#4 Review rents and lease terms

Rents are coming under strong downward pressure. Major retail landlords in Mainland China and Hong Kong SAR such as Wanda, China Resources, Seazen, Swire Properties and SHKP have announced temporary rental cuts to alleviate pressure on tenants.

In Singapore, Mapletree Commercial Trust has offered rental rebates for selected tenants at VivoCity, while Jewel Changi Airport has provided rental rebates to its F&B occupiers. CBRE Research expects this trend to continue until the situation improves. In Seoul, more than 300 landlords had offered rental assistance to tenants by the end of February.

Apart from rental rebates, landlords may also consider mutually beneficial schemes such as purchasing goods or cash coupons from tenants for later promotional use.

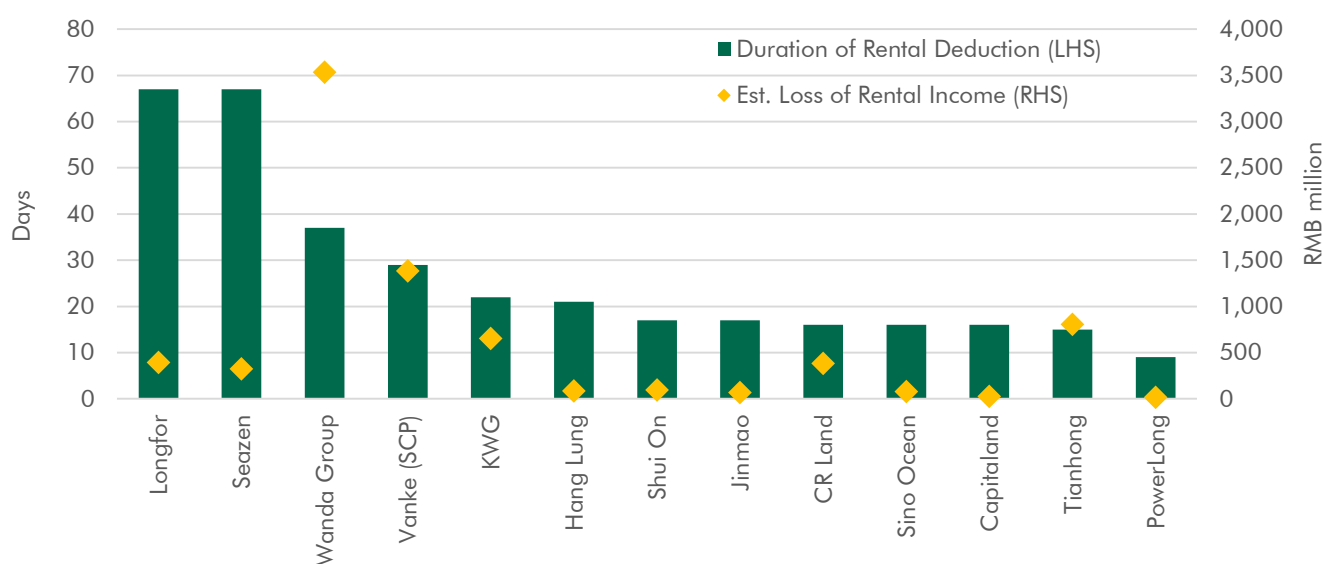
Figure 4: Revised rental forecast for 2020F

Market	2019 Actual	2020F (forecast as of Jan 2020)	2020F (forecast as of Feb 2020)
Beijing	1.5%	1.2%	0.1%
Shanghai	0.8%	0.5%	0.0%
Guangzhou	-2.0%	0.2%	0.0%
Shenzhen	-0.8%	0%	-0.2%
Hong Kong SAR	-19.2%	-15% to -20%	-20.0%
Taipei	-3.8%	0.2%	0.0%
Singapore	0%	-1.0%	-2.0%

Note: Hong Kong SAR and Taipei track the performance of prime high streets. Beijing, Shanghai, Guangzhou and Shenzhen track the performance of G/F prime shopping centres. Singapore tracks the performance of prime floor units.

Source: CBRE Research, February 2020

Figure 5: Rental reductions by selected landlords in Mainland China



Note: Assumption-loss of rental income is based on the rental revenue in H1 2019 in landlords' financial reports for their entire retail portfolio.

Source: Annual Report, CBRE Research, 24 February 2020

#5 Prepare for impact on regional performance and the resumption of business operations

CBRE advises retailers to prioritise sales performance and productivity in H2 2020 as they strive to recover from the inevitable slowdown in H1 2020. Many retailers are likely to hold large scale outlet and flash sales in the second half of the year to offload excess and out-of-season stock they were unable to sell due to store closures in Q1 2020.

With the outbreak continuing to spread across the region and exerting a strong impact on tourism spending, retailers must also prioritise regional business planning. Kering recently announced plans to increase its marketing expenditure in Mainland China in H2 2020 in anticipation of a sharp rebound in consumer spending once the outbreak has ended.

Retailers - especially tourist-oriented groups in segments such as pharmacies, luxury and jewellery - will also need to review individual store productivity and optimise retail shop networks.

DID YOU KNOW?

From 26 January to 8 February 2020, the top three popular pick up spots for contactless food delivery by Meituan were:



45%

Hang on the door handle



15%

Leave at the front door



14%

Put at the front desk

Source: Meituan's Contactless Delivery Report, February 2020

LONG-TERM MEASURES

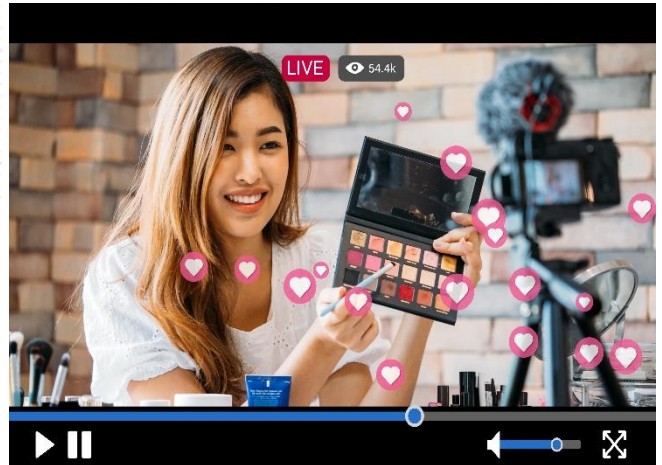
#1 Adopt new omnichannel tactics

Retailers that have long relied upon offline channels must enhance their omnichannel capabilities. In March 2020, Hermès introduced its official online platform in Hong Kong SAR, enabling customers to purchase its products at any time⁶. CBRE believes that the shift to online is a long-term structural trend and will place even greater pressure on retailers and landlords to offer unique and engaging shopping experiences to attract shoppers and sustain sales growth in the long term.

Live-streaming – an increasingly popular format combining entertainment and e-commerce – can help retailers foster a “see now, buy now” culture enabling them to quickly inform consumers about their products and create a sense of urgency to purchase. Many global luxury brands have held fashion shows and new product launches behind closed doors or livestreamed them on official websites or social media platforms to reach a younger audience. In Mainland China, Intime Department Store has partnered with hundreds of Key Opinion Leaders (KOL) to host livestreaming sales events. Furthermore, several fitness centres in Mainland China have set up livestreaming classes via social media platforms to continue providing services to customers.

In the F&B industry, improving online ordering and delivery services should be prioritised. Most restaurants still process online orders in-store, which can negatively impact service quality during peak hours. One solution is for casual dining and fast food restaurants to establish centralised or ‘ghost’ kitchens to handle online orders during busy periods. New products especially designed and suited for delivery purposes could also be developed in the long run.

Figure 6: A live-streaming sales session hosted by a KOL



Source: CBRE Research, March 2020

DID YOU KNOW?

**Forest Cabin –
a Mainland Chinese skincare
brand**



Used livestreaming to grow its sales by

+45% y-o-y in just 15 days

Source: Inside Retail [\[link\]](#), 27 February 2020

⁶ Hermès [\[link\]](#), March 9, 2020.

#2 Improve wellness and hygiene

CBRE expects the outbreak to strengthen the importance of property management in shopping malls and retail stores in the coming years. Hygiene and other measures to ensure facilities are safe, clean and well ventilated for employees and customers will be top of mind.

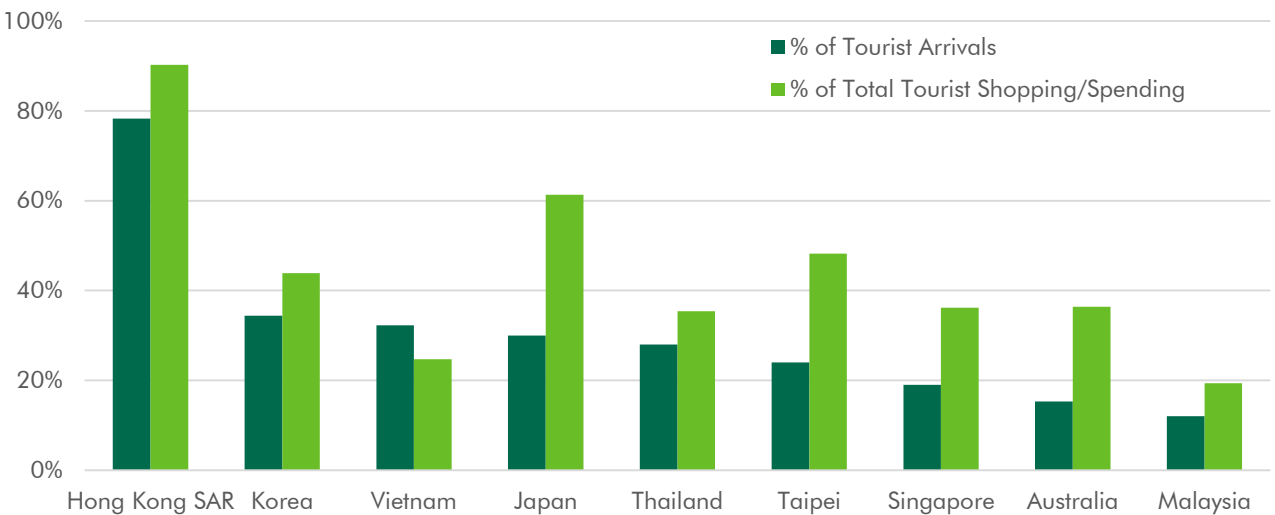
Permanent measures may include providing hand sanitiser at entrances; regular cleaning of goods or locations frequently touched or used by shoppers, such as elevator buttons; and disinfecting shopping baskets and carts. Shop staff will also need to be briefed on hygiene and how to deal with potentially dangerous situations.

Mall and store design may shift away from the standard enclosed big box layout towards the inclusion of more green and outdoor areas to provide good ventilation. Increased public awareness of wellness may also provide opportunities for retailers – especially the F&B industry – to introduce new healthy product lines.

#3 Enhance cross-border e-commerce

The jump in e-commerce sales since the outbreak will add momentum to the long-term fundamental shift to an online economy. Most Asia Pacific markets have been implementing travel restrictions on Mainland Chinese visitor arrivals and Korean visitor arrivals. World Tourism Organisation estimated that the fall in arrivals in Asia Pacific would be around 9% to 12%⁷. Therefore, regional retailers should develop their cross-border e-commerce capacity to ensure they can continue to reach this key demographic.

Figure 7: Mainland Chinese tourist arrivals and spending (2018/2019)



Source: CEIC, Hong Kong SAR - Tourism Board, Japan – Tourism Agency, Taipei (representing Taiwan market) - Tourism Bureau, Ministry of Transportation and Communications, Korea - Korea Tourism Organization, Australia - Australian Bureau of Statistics, Tourism Research Australia, Singapore - Singapore Tourism Board, Thailand - Ministry of Tourism and Sport, Vietnam - Vietnam National Administration of Tourism, Malaysia - Tourism Malaysia, CBRE Research, February 2020.

⁷ World Tourism Organization [[Link](#)], March 6, 2020.

#4 Explore Business-to-Business (B2B) e-commerce opportunities

The shortage of medical supplies in Greater China during the COVID-19 outbreak has caused considerable concern. A solution may lie in the increasing number of e-commerce platforms focusing on B2B procurement for SMEs. These platforms may provide opportunities for retailers to sell a range of products including office supplies and catering services.

#5 Develop last leg delivery capability

The surge in online orders during the outbreak and resulting labour shortage has caused bottlenecks to delivery. Some retailers have found creative solutions to address this challenge. In Hong Kong SAR, e-commerce platform HKTVmall has opened 25 parcel pick-up points at local retail stores and has utilised delivery trucks as pick-up points in residential areas to serve as the 'last leg' of logistics delivery, thereby enhancing shoppers' convenience. CBRE believes there will opportunities for community shopping malls to provide similar solutions to serve their residential catchment. These may include providing pick-up points in malls or helping retailers promote value added services.

CONCLUSION:

While it may be too early to draw any definitive conclusions about the lasting impacts of the COVID-19 outbreak, it has nevertheless highlighted several issues that are likely to influence the retail sector in the months and years ahead. Retail landlords and tenants are advised to consider the measures discussed in this report as they navigate this extremely challenging period.

Figure 8: People in Hong Kong SAR queueing to pick up deliveries



Source: CBRE Research, March 2020.

CBRE GLOBAL RESEARCH

This report was prepared by the CBRE Asia Pacific research team which forms part of CBRE Global Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate.

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