



INSIGHT
PAPER

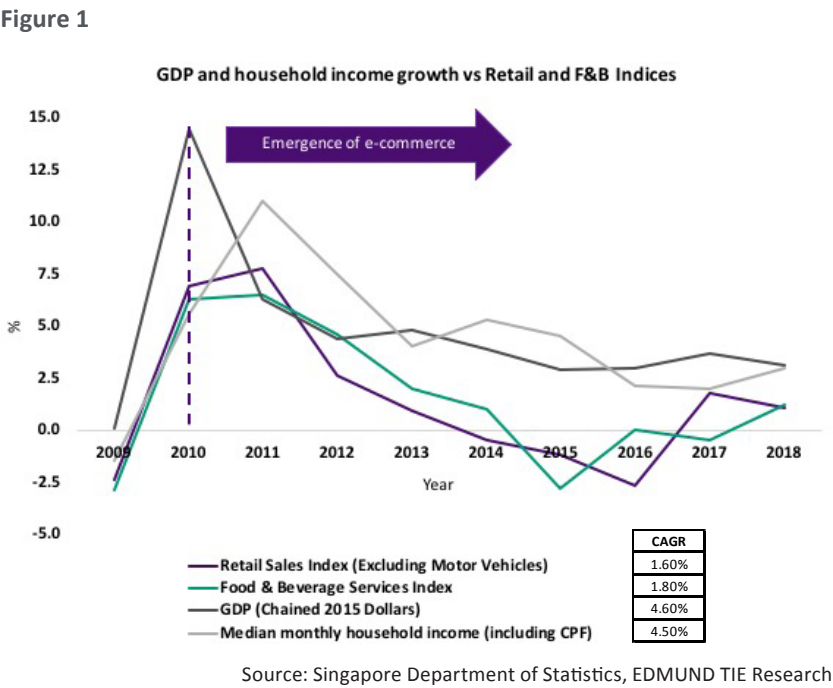
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RETAIL

The rise of experiential and activity-based retail

Introduction

Since the global financial crisis in 2009, Singapore’s gross domestic product (GDP) and household incomes have steadily recovered, growing by a compounded annual growth rate (CAGR) of 4.6 and 4.5 per cent respectively over the past 10 years. However, the retail sales and food and beverage (F&B) services indices grew by just 1.6 and 1.8 per cent respectively over the same period (Figure 1).



The advent of e-commerce and mobile device technology from 2010 competed with retail malls by offering shoppers access to 24/7 shopping, convenience, product information and reviews, lower prices and more choices. This changed the way people shop, from browsing products and services that were available in-store to conducting product research, pricing, store offerings and reviews online. Hence, the key differentiator between going to the mall and shopping online is the customer experience.

Notwithstanding the double-digit growth of e-commerce sales since 2011 vis-à-vis the low single-digit growth for retail and F&B sales, online retail accounted for less than 5 per cent (or just over S\$2.1 billion) of total retail sales in 2018. As such, brick-and-mortar stores – which still account for more than 90 per cent of retail sales – remain highly relevant today. According to e-Conomy 2018, e-commerce sales are forecasted to grow to some S\$5 billion by 2025 representing a CAGR of 14 per cent.

Changing tenant mix in retail malls

To address declining sales and changing shoppers' habits and preferences, larger mall operators started enhancing shoppers' experiences by increasing the experiential and activity-based retail mix in their malls. Since 2009, the proportion of F&B's contribution by gross revenue and by net lettable area (NLA) has increased significantly, followed by services and education, leisure and entertainment. On the other hand, fashion, department stores, supermarkets and hypermarkets have shrunk in response to the growing e-commerce offerings of similar product types sold at these stores (Table 1).

Table 1: Top 5 retail segments by gross revenue and NLA

2009			2018		
Retail Category	Gross revenue (%)	NLA (%)	Retail Category	Gross revenue (%)	NLA (%)
F&B	24-28	15-25	F&B	31-38	25-31
Fashion	14-31	7-17	Fashion	12-17	10-13
Beauty & health	5-9	3-5	Beauty & health	7-12	5-8
Department store	6-7	10-15	Leisure & entertainment	4-9	9-17
Supermarket/ hypermarkets	5-7	8-17	Services & education	6-7	10-15

Source: Annual reports of CapitaLand Mall Trust (CMT), Frasers Centrepoint Trust (FCT), Suntec REIT (SUN), EDMUND TIE Research

On the contrary, there has been a trend reversal for some established online retailers like Taobao and Love, Bonito, where their expansion offline to complement their omni-channel strategy helps to provide a more integrated customer experience.

Today, F&B contributes a considerable part to a mall's overall retail mix and strategy in attracting footfall, promoting shoppers' experience and retaining customers as a place of meeting and community.

The other growing segment is leisure and entertainment. While these tenants are not big revenue generators in proportion to the amount of space they occupy, they are usually considered "anchor tenants" with the purpose of boosting footfall and fostering community gathering through their activities / event / workshop offerings. These include 24-hour gyms, fitness studios, social kitchens, indoor family games and activities, and cinemas.

This trend continued with the recent opening of Jewel Changi and Funan in H1 2019, which showcased many new-to-market F&B brands and flagship stores, but also featured attractions or open communal spaces not directly retail-related (or non-retail) such as the Rain Vortex, Canopy Park, Hedge Maze at Jewel Changi as well as the Wild Rice theatre, rooftop urban garden and farm at Funan. These unique attractions not only appeal to a wide variety of visitors, but are also very amenable to the various social media platforms, creating many 'Instagrammable' moments for cost-effective marketing to increase footfall and higher spending.

Case Study

FUNAN MALL

After a three-year redevelopment, Funan reopened on 28 June 2019 – about 85 per cent larger and extensively transformed from a predominantly Information Technology (IT) retail mall with approximately 299,000 sq ft NLA to a mixed-use development comprising retail (319,000 NLA), office (214,000 NLA) and co-living apartments (412 rooms or 121,000 sq ft GFA).

Before



Photo and source: Funan, <https://www.cmt.com.sg/>

After



Photo and source: Funan, CapitaLand, <https://www.cmt.com.sg/>

Funan not only offers new experiential and activity-based retail, but is also Singapore's first omni-channel mall embracing online and offline platforms, as well as leveraging technology with the aim of delivering a more integrated and curated shopper's experience.

Key retail mix, experiential and activity-based concepts/stores, key features/attractions are as follows:



- F&B occupied about 25 per cent of floor space with about 80 stores out of just over 200 retailers;
- More than 30 per cent new-to-market brands, concepts or flagships including Dyson Demo Store, Brompton Junction, TFX gym, Lenovo, DJI, PPP Coffee, Afuri Ramen and many others;
- More than 60 per cent of tenants are homegrown brands;
- Tree of Life is part of co-retailing concept - this permanent centrepiece structure comprising 20 retail pods provide a pop-up platform for both emerging and established brands to showcase their products/crafts/classes/workshops for a limited time period;
- Leisure and entertainment offerings such as Climb Central, the Wild Rice theatre (20,000 sq ft) and Golden Village cineplex, as well as the co-living residents will help to "activate" the precinct after working hours;
- Communal and open spaces such as the Urban rooftop (32,000 sq ft) and Urban Farm (18,000 sq ft) are accessible to the public - offering diners an opportunity to experience the farm-to-table eating concept. Additionally, there is a futsal court on the rooftop as well;
- Utilisation of technology – sensors on the smart directories can offer personalised recommendations based demographic profile. In addition, sales data coupled with video analytics that monitor shopper traffic, behaviours and movements within the mall, will provide tenants insights to enhance product offerings and customer experiences; and
- 24-hour drive through click-and-collect facility.

The results so far...



Based on the past 10 years' performances of Singapore's major retail real estate investment trusts (REITs) such as CapitaLand Mall Trust (CMT), Frasers Centrepoint Trust (FCT) and Suntec REIT (SUN), the overall results suggest that REITs have been relatively successful in maintaining and growing their market share and operating performance, even amid a subdued retail environment. The key performance indicators showed growing footfall, net property income and positive rental reversions, although these growth rates were relatively low, ranging from 1 to 3 per cent CAGR. Additionally, CMT's tenants' sales per square foot (psf) grew by approximately 2 per cent CAGR.

While the REITs are able to adapt to the changing retail landscape, maintain healthy occupancy rates and grow operating profits on a portfolio-wide basis, the opposite may be happening to the older, less accessible and less well-managed malls, with many reportedly struggling to stay relevant and afloat.

As such, some of these strata-titled and formerly iconic malls are currently or previously listed for collective sale, namely, Beauty World Centre, Katong Shopping Centre, Queensway Shopping Centre and Sim Lim Square. However, not all such malls are underperforming, especially those serving niche markets such as Queensway Shopping Centre (sports) and Sim Lim Square (IT), although they are not trading at the same level as they were during their heydays. Increasingly, some of these strata units are used as test beds for new products as well as by new entrepreneurs who prefer a physical store to complement their online business due to their more affordable rents and flexible tenures.



What is happening overseas?

Are there alternatives?

The evolving retail mix and the impact of e-commerce on retail malls are not unique to Singapore but are also happening regionally and globally.

As part of this Insight study, we look at the key differences as well as the critical success factors between mega malls and community malls in Bangkok.

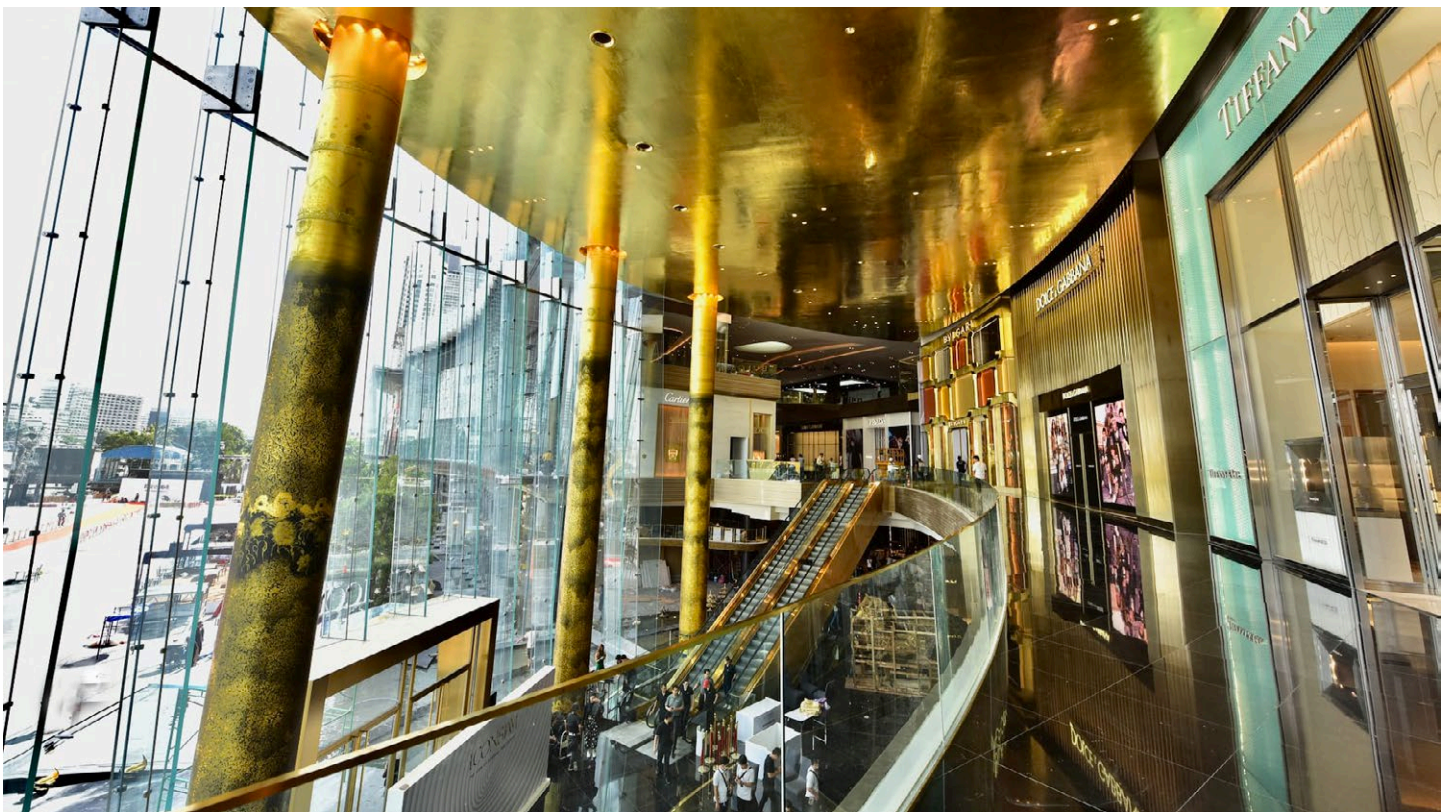


Photo and source: ICONSIAM, <https://www.iconsiam.com/en>

Mega mall: ICONSIAM



Photo and source: ICONSIAM, <https://www.iconsiam.com/en>

Costing some S\$2.0bn over a period of six years, ICONSIAM opened on 9 November 2018. It is a 750,000 sq m (8m sq ft) mixed-used development comprising two luxury residential towers and Bangkok's largest shopping centre with 525,000 sq m (5.6m sq ft) of gross retail space. This destination retail precinct was uniquely developed using the "Creating Shared Value" and "Co-Creation" concepts which involved the collaboration of many stakeholders including tenants, communities, artists, designers and other partners across Thailand. In addition, ICONSIAM was awarded the World Retail Awards 2019 for Outstanding Store Design (>1,200 sq m).

Key retail mix, experiential and activity-based concepts / stores, key features / attractions are as follows:

- More than 500 retail shops and 100 restaurants;
- Key new-to-market brands and flagships included Takashimaya (36,000 sq m/387,500 sq ft), Apple, @Cosme, Urban Revivo, JD Sports, Nike Kicks Lounge and Jumbo Seafood;
- ICONLUXE – a 25,000 sq m (269,100 sq ft) super luxury pavilion comprising many of the world's ultra-luxury brands that offers at least one unique product that is not available elsewhere in Thailand as well as one-of-a-kind in-store experience via their brand stories;
- SookSiam – spanning 16,000 sq m (172,200 sq ft), this indoor floating market is Thailand's first co-creation space for the local communities from 77 provinces of Thailand, and is also a global platform for the marketing and development of local products. Additionally, about 10 per cent (or 300 to 400) of the 3,000 local entrepreneurs will be rotated annually to provide diversity and opportunity for the region's local communities;
- ICONCRAFT – 2,500 sq m (26,900 sq ft) of space showcasing local art pieces and contemporary craftworks as well as a craft corner offering activities and workshops;
- Thailand's first world-class heritage museum of some 8,000 sq m (86,100 sq ft) showcasing many priceless artworks and masterpieces;
- TRUEICON HALL a first-in-Thailand ultra-hybrid meetings, incentives, conferences and exhibitions (MICE) venue with 12,000 sq m (129,100 sq ft) of space and a capacity of 3,000 seats; and
- River Park – 10,000 sq m (or 107,600 sq ft) of open community space along the Chao Phraya River.

Community malls: The Commons



Photo and source: The Commons, <https://thecommonsbkk.com>

In contrast to mega malls, community malls in Bangkok tend to be much smaller, open-air and offer more localised and intimate experiences. The emergence of community malls began sometime in 2004 with the opening of J Avenue in Thonglor, which is considered as one of the pioneers. Since then, community malls have grown rapidly in the Greater Bangkok area due to their lower barriers of entry and more affordable land costs, although their proliferation has led to several malls failing as well.

While there is no standard definition for community malls, they are typically located along or outside the outskirts of Central Bangkok and surrounded by a sizeable residential community. These developments tend to range between 50,000 and 70,000 sq

ft in gross leasable area, and are characterised by a largely F&B-centric retail mix of about 50 per cent, followed by about 20 to 30 per cent of floor space are allocated to services, and the remaining to others such as supermarket, fitness centre and early education. In 2018, community malls accounted for approximately 14 to 15 per cent of total retail stock in Bangkok.

One of the most notable developments that has won many accolades is The Commons in Thonglor, one of Bangkok's trendiest neighbourhood. Opened in February 2016, The Commons has been shortlisted for the World Architecture Festival awards in 2016/17 for its unique design and ability to attract footfall to upper levels. The tenant mix and key features of this four-storey mall are as follows:

- 5,000 sq m (53,800 sq ft) of gross floor area with about 40 per cent of space (21,500 sq ft) leasable and the rest allocated to open communal uses including family-friendly play areas and space for weekly and regular events and activities such as cooking workshops, live music and community gatherings. In addition, the mall owners through various activities and events in collaboration with different non-profit organisations, give back to the community; and
- More than 70 per cent of tenants are quality and boutique F&B retailers. In particular, the top floor is occupied by one of Bangkok's most popular cafe, Roast. The remaining tenants comprise supermarket, services and education, and fitness.

The background image shows a modern, multi-level indoor space. On the left, a large, vibrant vertical garden is filled with various tropical plants, including ferns and red-leafed shrubs. To the right, a wide, open atrium with a light-colored floor is filled with a diverse group of people, including families with strollers and individuals walking. The architecture features dark, textured stone walls and glass railings. The overall atmosphere is bright and lively.

The ever-changing retail landscape

Despite the exponential growth of e-commerce, brick-and-mortar retailers continue to account for at least 95 per cent of retail sales, underscoring their continued importance and relevance to the retail landscape.

Locally, the REIT-managed malls have so far been successful in repositioning their retail mix to stay competitive. The introduction of more experiential and activity-based attractions – both retail and non-retail in nature – has helped boost footfall, maintain high occupancy rates, with the aim of increasing tenants' sales and operating profits.



Key emerging and established trends based on the Singapore REIT malls and case studies above are as follows:

- Increased diversity, quality and niche F&B offerings, as F&B increasingly becomes a critical success factor in the overall retail mix;
- Offering unique products and experiences with more new-to-market brands, flagships and concept stores;
- Integration of omni-channel strategy (offline and online) to provide more seamless, holistic and personalised customer experiences. This is also augmented with the greater use of technology via loyalty apps, data and video analytics, and logistics;
- Provide platforms that allow small and local entrepreneurs the opportunity to showcase new or unique products with flexible lease terms and tenure;
- Greater shopper and community engagement through various activities, events, workshops and gatherings through activity-based retailers and non-retail attractions, public open communal spaces, especially with health and fitness, and athleisure gaining popularity;
- Access to a sizeable resident catchment both on-site and off-site to activate the precinct throughout the day; and
- Lastly, a growing source of secondary income is coming from existing tenant and third-party advertisements on the mall's website or within mall premises.

Despite the trend of retail malls offering more experiential and activity-based retail to win back former customers and gain new ones, it is still too early to ascertain whether the incorporation of non-retail components such as attractions and open communal spaces will translate into higher consumer spending and profitability in spite of the higher footfall, especially for the newer retail malls once the novelty wears off.

Although today's shoppers are more discerning, they are willing to pay for enhanced, unique, personalised experiences, engagements and outcomes that differs from online shopping. Hence, the retail landscape has to continuously evolve, innovate and engage with their customers and community.



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