Home to more than half of the world’s population, and comprising approximately one-third of consumer expenditures, the Asia-Pacific (APAC) region is already a global retail powerhouse. Its leading status today, as well as projections for continued population and economic growth in the future, put the region at the forefront of trends transforming the global retail industry.

APAC’s already large population will grow by 400 million people through 2030, and over the next decade, disposable income is expected to increase roughly US$12 trillion, accounting for nearly two-fifths of the global increase during that period. These factors will put the APAC region on pace to make up about half of total consumer expenditures by 2050.

And, while the collective dominance of Asia-Pacific puts the region in the economic spotlight, individual countries—both developed and emerging—make the APAC region extremely dynamic. Neighboring markets within the region feature characteristics that often place them at opposite ends of the socio-economic spectrum.

I. DRIVERS OF THE RETAIL INDUSTRY IN ASIA-PACIFIC
A. Population and Age Structure

Most (53%) of the 4.2 billion people in APAC reside in just 13 of the more than 40 countries in the region—referred to as the “AP-13.” The distribution of people throughout the area varies widely, with China (63%) and Indonesia (12%) having the largest

Key Takeaways

- A very large population with generational diversity will likely support retail in APAC for decades as the largest cohort, Millennials, age into their prime spending years.
- Urban population growth in APAC is altering consumer preferences, shopping behaviors, physical space considerations and producing a larger middle class with greater disposable incomes.
- In addition to socio-economic factors, technology is a leading driver of the APAC retail market because of heavy investment in digital infrastructure and the resulting increase in the number of connected consumers.
- Consumers are prioritizing having experiences over accumulation of goods, which has led to a rise in the sharing economy.
- Asian consumers are seeking immersive shopping experiences and want value in the form of exceptional and personalized services that appeal to their own needs and tastes.
- Shopping center landlords are increasingly diversifying the tenant mixes of their properties through the inclusion of non-retail tenants such as food and beverage, leisure/entertainment, co-working spaces and educational facilities.
- With rising urban population, more mixed-use retail centers are emerging around transit-oriented developments, which are becoming a necessary way of life and an integral part of development.
- Despite a rapid rise in e-commerce sales across APAC, store-based retailing remains the dominant channel, accounting for a majority of total retail sales.
- Across APAC, emerging digital capabilities and a tech-savvy population have propelled the region to be the global leader in mobile usage, with smartphones driving digital commerce growth.
- Retailers and landlords are seamlessly integrating online marketplaces and physical stores to maximize brand experiences throughout consumers’ shopping journeys, offering enhanced pickup and delivery, electronic payments and super apps.

2 Ibid.
3 Euromonitor International.
4 The AP-13 includes Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.
populations, and New Zealand and Singapore the smallest, each comprising 0.2% of the AP-13.

**While generational diversity within the population poses challenges to retailers and landlords in terms of each having unique preferences and behaviors, it also provides opportunities.** More than half (52%) of the AP-13 population were under the age of 38 in 2018, with the Millennials (20-to-37 years old) representing 27% (the largest generational cohort) and the remaining 25% under 20. Overall, as shown in Chart 1, Millennials in APAC represent more than half (57%) of the total global Millennial population. These cohorts will likely support retail for decades as they age into their prime spending years.5

With more than three-fifths of the population below 38 years old in 2018, the population in the Philippines, Malaysia, Indonesia and Vietnam is young. At the opposite end of the spectrum are Japan and Hong Kong with the oldest populations, having 42% and 35% of all people over 53, respectively.6

Though younger cohorts will continue to loom large, aging will become a factor. Based on estimates, shares of the younger population will decline, while shares of the older groups rise. Currently, across the AP-13, those 54 years old and above make up 24% of the population, but by 2030, it is estimated that they will comprise nearly one-third (32%) of all people, with the share of those under 38 years old falling to 46% (from 52%).7

**B. Millennials**

Millennials are already influencing retail real estate, not just through their size, but also through their lifestyles and entrance into peak consumption years. Generally, this group, representing a growing source of spending power, is characterized as:8

- **Delaying household formation:** A large share of Millennials are single. As of late 2016, more than three-fifths (63%) of them were living at home with their parents. Additionally, two-thirds of Millennials living on their own were renters.

- **Having a passion for social activities:** Compared to their counterparts living outside the region, Millennials in APAC spend less overall on basic living expenses and allocate higher shares of expenditures to leisure activities.

- **Prioritizing health and wellness:** More than other generations, Millennials are health conscious, exercising and eating balanced diets, increasing the need for gyms, other wellness facilities, spas, green spaces and healthier dining options.

**C. Growing Urban Populations**

A global increase in urban population is impacting retail, altering consumer preferences, shopping behaviors and physical space considerations. Urban lifestyles often lead to a discretionary spending shift from traditional retail goods to services, boosting demand for product rentals, subscriptions, on-demand fulfillment and leisure-based activities. Smaller, more dense living space, elevated costs and greater access to culture and recreational activities are several reasons for the shift.9

Across the AP-13, rural populations outnumbered urban ones until 2008. Since then, rural populations have been declining while urban areas have grown. In 2018, the AP-13 urban population was 1.5 times greater than rural areas. (See Chart 2.)

By 2023, city populations are projected to grow nearly 9% and by 2030, cities will hold twice as many people as rural areas. These rates of change, however, will vary by country. Over the next five years, Vietnam, Philippines, Indonesia and China are expected to display double-digit growth in their urban populations.10

**D. Rising Middle Class**

Income inequality, though still high across APAC, has improved over the past decade because of growing economies, more generous social policies and urban migrations producing higher educational levels and better-paying jobs. These positive changes are reflected in rising disposable incomes across the region.

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5 Euromonitor International.
6 Ibid.
7 Ibid.
10 Euromonitor International.
11 Ibid.
Large differences remain, however, across markets. In terms of actual dollar amounts, per capita disposable income is significantly higher in Hong Kong, Australia and Singapore, while they are much lower in Vietnam, Indonesia and the Philippines.

A very different story emerges, however, from looking at the growth rates of these same countries, as shown in Chart 3. In China, Vietnam, Malaysia and the Philippines, disposable income is growing much faster than other countries. This is allowing for a greater consumption of goods and higher expenditures on services like dining and entertainment.

![Chart 3](image)

**Percent Change in Per Capita Disposable Income by Country**

Source: Euromonitor International

With rising income levels comes an increase in the number of middle-class households. Since 2013, the number of these households grew the most in Malaysia, the Philippines and Vietnam. Over the next five years, the same countries will continue to expand though at slightly slower rates. Also, with rising levels of disposable income comes shifting consumption patterns. By 2023, the growth in per capita expenditures on leisure/recreation, hotels and dining are forecasted to exceed categories such as clothing, household goods/services and food for home consumption.

E. Technology

The APAC region is home to over half (51%) of global Internet users—a growing number that makes technology a major driver in the retail market. With the increase in connected consumers has come a dramatic increase in digital commerce. Over the past five years, digital spending across APAC countries grew almost twice as fast as anywhere else, and currently, 41% of global digital expenditures originate there. At this rate, it is clear why the region is forecast to account for over half of global online sales by 2025.

Much of the growth has been a result of heavy smartphone usage. Nearly half of Asian consumers shop on a mobile device at least once a week, and 40% of consumers in Philippines and Indonesia report using smartphones more than eight hours per day.

Other advanced technologies are also being used to boost customer engagement and accommodate shoppers’ evolving preferences. Virtual and augmented reality, location-based services and interactive mirrors are a few examples of how retailers are increasing convenience and adding experiential elements to the retail environment in order to enhance overall satisfaction.

II. THE EMERGING EXPERIENCE-DRIVEN CONSUMER

A. Prioritizing Experience Over Accumulation

Retail real estate drivers in APAC are allowing for diverse preferences and buying habits, leaving consumers to expect a wider range of choices, personalization and active participation. More than their physical possessions, consumers’ identities and social capital have become centered around activities shared on social media.

As portrayed in Chart 4, three-fifths of consumers across the AP-13—the second-highest share among all the global regions—say it is important to spend money on experiences, reaching as high as 71% in Indonesia. In China, half of consumers note the importance of spending money on experiences, but this rises to 67% among Millennials, significantly more than Generation Z (30%), Generation X (50%) and Baby Boomers (43%).

![Chart 4](image)

**Shares of Respondents Who Say it is Important to Spend Money on Experiences, by Region**


B. Growth of the Sharing Economy

**Consumers’ interest in borrowing rather than purchasing what they need has spurred the sharing economy or lending/rental services.** Across the AP-13, 20% of consumers say they would rent instead of buy items for specific occasions or a set period, rising to a high of 30% in the Philippines. Growth in this sector has been so significant, that in China alone, a forecast calls for the lending industry to account for around one-tenth of national gross domestic product by 2020.

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12 Euromonitor International.
13 Ibid.
15 Ibid.
17 Ibid.
19 Ibid.
The market intelligence agency Mintel notes the rise in bike-sharing apps, co-working spaces and communal-rented accommodations across the APAC region, all enabled by digital technology. Consumers unable to afford big-ticket purchases and reluctant to commit to long-term ownership remain flexible in their options. The sharing economy is reshaping the use of physical space throughout the region, as less area is needed to house inventory and more resources are dedicated to enhancing brand awareness and showcasing lifestyle value.

C. Providing Value Beyond Price
Value not only refers to price or quality, but also to additional benefits that satisfy consumers’ ever-changing needs. No longer are customers treating stores as self-service warehouses, but rather as engagement centers that are part of a complex journey heavily influenced by tech advancements where they can see, touch and try on products to increase their brand familiarity.

Asian consumers seeking immersive shopping experiences are increasingly looking toward companies that provide value in the form of exceptional and personalized services—even made-to-order products that appeal to their own needs and tastes. An average of one-quarter of consumers in the AP-13 say they specifically look for personalized and tailored shopping experiences, reaching as high as 41% in Thailand.

Throughout the AP-13 on average, nearly half of consumers say they like to find bargains. However, despite finding lower prices attractive, almost two-fifths would rather buy fewer, but higher-quality items.

From the start of the shopping journey through their purchase, consumers increasingly expect attention, in the form of stellar customer service—wanting answers as well as their goods and services quickly and effortlessly. Therefore, in a region where instant gratification is on the rise, engaging consumers and getting them what they need immediately is very important. Furthermore, consumers, particularly urban ones, have transitioned from doing most of the work themselves (e.g., driving to a store and searching for their own items) to expecting retailers to do more for them.

D. Diversifying the Tenant Mix
Shopping centers are also evolving, becoming community hubs or “living centers,” where people can work, be educated, dine, see a doctor or go to a movie. To boost traffic, landlords are broadening tenant mixes and are increasingly adding non-traditional formats such as co-working spaces, e.g. WOTSO, or educational learning facilities, e.g. Kip McGrath Education Centres Limited. Expanding the food and beverage (F&B) offerings and entertainment operators is also widely popular. According to CBRE Research, while general fashion represented 16% of new retail entrants to APAC in 2017, F&B vendors accounted for 36% and leasing demand from them is expected to remain strong.

Data from Cistri also confirms the strong presence of F&B and other non-retail tenants in large Asian malls. Roughly 14% of gross leasable area in malls over 968,000 square feet (90,000 square meters) is allocated to F&B tenants, significantly more than the 5% in comparably sized U.S. super-regional malls and greater than the global average of 8%.

Several properties throughout the region illustrate these shifts:
- **Fashion Walk**, in the Causeway Bay section of Hong Kong, added Strokes, a 9,000-square-foot mini-golf course with a cocktail bar and multipurpose room.
- **Victoria Dockside**, in Hong Kong’s Tsim Sha Tsui neighborhood, is adding a 20,000-square-foot Legoland Discovery Centre, an indoor family entertainment attraction.
- **ION Orchard**, in Singapore, curates different experiences and hosts engaging activities such as a butterfly dome, live bird shows, dance performances, art exhibitions, and seasonally-themed light shows.

E. Emerging Mixed-Use Developments
With the rise in city population, urban retail is set to expand. Live-work-play lifestyle destinations are on the rise as more mixed-use retail centers around transportation hubs and in commercial and residential buildings are being established. In Asia, transit-oriented developments (TODs) have become a necessary way of life and an integral part of development. While TODs have been around for years in Japan, Singapore and Hong Kong due to high population densities along their rapid transit systems, China has introduced these developments more recently and is continuing to build them quickly. TODs are important in shaping cities and providing large-scale commercial opportunities throughout intercity train networks.

Jurong Gateway in Singapore demonstrates how these projects, when done correctly, work well. With a mix of uses that features retail (including big boxes), office, hospitals, entertainment, train,
bus and taxi stations—all interconnected by skywalks and footpaths—the symbiotic relationship each use has maximizes visits throughout different times of the day to create a thriving development.\textsuperscript{31}

F. How Retailers are Responding

Store openings and tenant diversification will focus on local/domestic and niche brands (capturing as much as a 98% share of market growth in China in 2017),\textsuperscript{32} as well as new-to-market Asian brands and click-to-brick retailers. Some retailers will refine their portfolios by reducing the number of openings and overall number of stores, upgrading their strong existing locations and introducing large flagship or smaller-format concept stores. Increasingly, pop-up shops are being used to display new products, test markets and provide personal experiences and convenience.

New shopping center space across APAC is forecasted to be approximately 53 million square feet this year, roughly the same as 2018, with most of this occurring in China. Even as additional space is added, landlords have kept vacancy rates reasonably low and even reduced them, predominantly through the inclusion of new, large space occupiers, such as F&B and experience-based retailers. As a result, the vacancy rate in China, for instance, dropped from 9.5% in 2013, to 6.5% in 2018.\textsuperscript{33}

III. PHYSICAL AND DIGITAL CONVERGENCE

Economic conditions and technological innovations have changed how consumers shop. Undoubtedly, the Internet has impacted the retail and retail real estate industry; however, contrary to popular belief, a thriving e-commerce market is not the sign of a retail apocalypse. Indeed, retailers and landlords who invest in both digital and physical store infrastructure to accommodate their consumers will remain competitive and flourish more than those operating a single channel.

A. Rapid E-Commerce Growth, But In-Store Retailing Prevails

Total retail sales across the AP-13 in 2018 were US$4.7 trillion, representing about 89% of the entire APAC region. (See Chart 6.)

Among that AP-13 total, China alone accounted for more than half (52%) of sales. This year, total sales in the AP-13 are expected to grow 4%, led by the Philippines, where total retail sales are projected to increase 6%, with China, Indonesia, South Korea and Vietnam closely following.\textsuperscript{34}

Throughout the AP-13, \textit{store-based sales made up 81% of total retail sales in 2018}, with online sales accounting for just 17% of total retail sales (highest in China and South Korea at 24% each). Though online sales have grown rapidly and will continue to rise, its pace is slowing considerably. Looking ahead five years, store-based sales are estimated to grow most in Indonesia (+24%), the Philippines (+28%) and Vietnam (+29%). Those same countries plus Malaysia will also see triple-digit internet sales growth during the same period.\textsuperscript{35}

B. Smartphones Lead Retail Digital Commerce Growth

Although in-store purchases account for most retail sales, the traditional path to purchase has become more complex with consumers being the driving force, wanting to shop anywhere at any time. Technology, and in particular the smartphone, has been the biggest enabler of digital commerce.

Retail digital commerce throughout the AP-13 has grown an astounding 295% over the past five years to reach US$1.1 trillion in 2018, as shown in Chart 7, and is projected to expand by 80% from 2018 to 2023. \textit{Its primary driver is mobile commerce on smartphones}, rising 1,797% between 2013 and 2018 and projected to grow another 98% in the AP-13 between 2018 and 2023. Smartphones accounted for roughly 16% of all retail digital commerce in 2013, rose to 78% in 2018 and is forecasted to grow to 85% in 2023.\textsuperscript{36}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart7.png}
\caption{Retail Digital Commerce in AP-13, 2013-2023}
\end{figure}

Total retail digital commerce grew fastest in China (463%) and Indonesia (220%) over the past five years. Looking toward 2023, it will increase the most in the Philippines and Indonesia (each with 185%). Currently, mobile commerce represents the largest share of total retail digital commerce in China, Indonesia and Hong Kong, while personal computers still represent the largest shares in Japan, Taiwan, Thailand and Australia.\textsuperscript{37}

\textsuperscript{31} Ibid.
\textsuperscript{32} Bruno Lannes, Jason Ding, Marcy Kou and Jason Yu, "\textit{As Shoppers Upgrade, Growth Returns.}," Bain & Company, July 2018.
\textsuperscript{34} Euromonitor International.
\textsuperscript{35} Ibid.
\textsuperscript{36} Ibid.
\textsuperscript{37} Ibid.
C. Omni-Channel Options Used for Major Product Purchases

Evidence shows that consumers use physical locations and online platforms to research before buying as well as to make the actual purchase. Across the AP-13, on average, physical locations represent the most popular channel for purchases. For all categories surveyed, more consumers buy in stores compared to smartphones or computers/tablets. (See Chart 8.) The highest shares of in-store purchasers are in the Philippines, Malaysia and Hong Kong, while the largest shares of those buying on smartphones are in China, South Korea and Indonesia.38

![Chart 8](image)

**Purchasing Channel by Product Type Across the AP-13**


D. Seamless Transitions Throughout the Shopping Journey

Retailers and landlords are seamlessly integrating online marketplaces and physical stores to maximize brand experiences throughout consumers’ shopping journeys, through:

- **Pick-Up and Delivery:** Retailers and landlords are providing unified omni-channel offerings to enhance in-store fulfillment capabilities and integrate brick-and-mortar stores into last-mile delivery. This is especially the case as urbanization continues and consumers expect rapid, on-demand delivery and near immediate access to their online purchases. Shopping centers, for example, may incorporate ride-sharing pick-up/drop-off zones and add additional parking or pick-up areas for food delivery couriers and click-and-collect customers.39

- **Electronic Payments:** As digital retailing continues to expand, particularly mobile commerce, many Asian companies are adopting electronic payment service and mobile wallets to bolster the frictionless payment experience, both in stores and online. At brick-and-mortar locations, these systems could help alleviate one of consumers’ biggest complaints; long checkout lines. In China alone, over half a billion people are using mobile payment services, such as Alipay and WeChat Pay, to buy online or in a physical store.40

- **Super Apps:** Retail and shopping app registration rates in APAC have surged recently to new highs.41 Due to proliferating smartphone use and app technology in APAC, online shopping is increasingly integrating with other consumer services to create an all-in-one shopping and lifestyle interface. So called “super apps” enable companies to drive additional revenue and consumer engagement, often across sectors, blurring the lines of where and how people live, work, shop and play. They allow companies to remain relevant and connect with consumers via different platforms, technologies, locations and sectors.42

E. Physical and Digital Worlds are Complementary

Consumers are no longer using just stores or the Internet to shop, but a combination of both where the convenience of the Internet intersects with experiential elements of physical space. As consumers look for frictionless shopping experiences that are convenient, accessible and transparent, omni-channel retailing plays a vital role.

Despite the prevalence of e-commerce, Asian customers still become frustrated when shopping online due to high shopping costs, unclear sizing information, inaccurate product representation and slow fulfillment. Many of these, however, are not issues when shopping in stores because consumers are able to get their items immediately, see/touch and try on merchandise, receive face-to-face customer service and have the social experiences they crave.43 A customized shopping journey that emphasizes the benefits of online shopping with those of shopping at physical locations is key to omni-channel success.

**CONCLUSION**

The Asia-Pacific region has emerged as a leader of the global retail industry. Growing economies, large young populations with high concentrations of Millennials, and urbanization have not only led to higher disposable incomes and more middle-class households, but altered consumption patterns. These major socio-economic factors are driving current retail and retail real estate industry trends. In addition, technology and more specifically, the smartphone, has given rise to the digital consumer, with new shopping behaviors and much higher expectations.

Despite a mobile commerce explosion across Asia-Pacific, physical stores remain an integral part of the retail ecosystem, as they provide social places for consumers to gather with friends and family as well as experiences that cannot be found online. Embracing the digital channel to engage consumers, while maintaining a strong physical presence—omni-channel retailing—is a must for those who will emerge as leaders of the APAC retail renaissance.

42 Evans, “Digitalisation in Asia: How One Region is Shaping Worldwide Trends,” p. 11.
43 Wiggersnaad and Lung, “The Digital Consumer in Asia,” p. 27.

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