A Retail Sector Review
for the Pearl of the Orient

A Renewed Retail Experience Post-Pandemic

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Cover Photo by Egy Rivera

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Mall-going has long been imbued in the lifestyle of the Filipinos. Instead of acting solely as commercial buildings, these retail projects have been considered as community centers, housing varying tenant types. Further, these air-conditioned establishments have become a refuge of the local populace from the tropical climate of the country. Thus, the number of retail projects have been growing alongside the dynamic consumption activity. This solid growth, however, has recently experienced a massive headwind in the form of the COVID-19 Pandemic.

With the lockdown in place, malls and most of their tenants have closed shops except supermarkets, pharmacies, and certain food & beverage (F&B) stores. To maintain liquidity, most consumers are limiting their spending to essential goods only. Being an outlier, supermarkets have registered an artificial revenue growth of about 40% to 50% in March from their figures from last year due to panic buying. However, the general retailer has been recording sales decline, if not halted operations altogether. This has forced the different mall operators in the country to waive their rents during the quarantine period.

Consumerism Amid Social Distancing

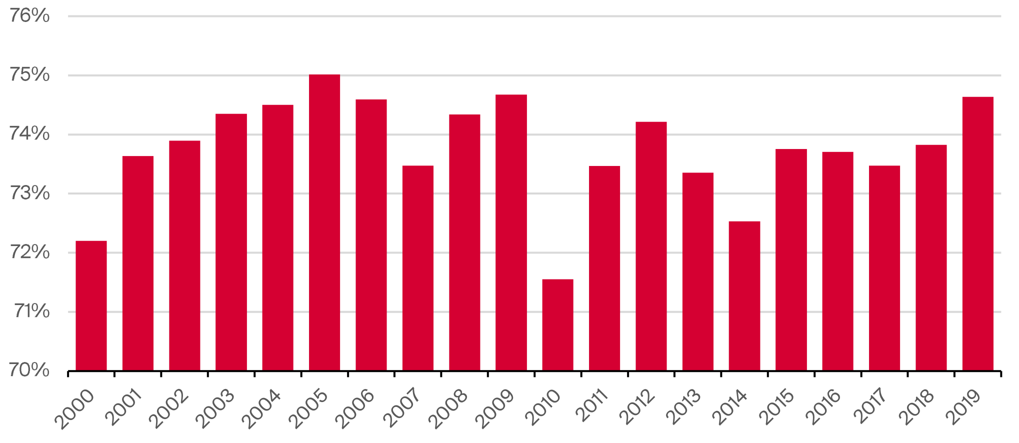
Despite the lockdown, consumerism of the local populace has persisted. E-commerce, through online shops and mobile platforms, became vital in ensuring the proper delivery of goods and merchandise. Consequently, several F&B establishments have resumed their operations to accommodate this pent-up consumer demand. Their services, however, have been limited to take-out or delivery as the government strictly mandates social distancing to minimize the spread of the virus.

Post-lockdown, the practice of social distancing will still be strictly enforced as authorities and consumers remain wary of the COVID-19 threat. Partial opening of malls is seen to be implemented to control the number of patrons entering and avoiding unnecessary gathering or clustering of people. Allowable occupancy per establishment may also be reduced from their maximum capacity. Hence, the role of retail online platforms will remain essential to further serve the unwavering clamor for consumer goods.

The Future of Brick-and-Mortar Stores

With the fractional shift of demand towards e-commerce, physical stores may need to revisit their space utilization. Though a brick-and-mortar shop is necessary to establish a market presence, its ideal size would depend on the channel where the

FIGURE 1
Final Consumption as % of GDP



Source:
Bangko Sentral ng Pilipinas

bulk of their revenues is posted. This can be determined through an analysis of their sales avenue – whether physical or online.

Enterprises who generate a significant share of online sales could decide on minimizing their prime spaces. Merchandisers can opt to lease on-site storage spaces on other levels instead of pushing for a larger selling area. Likewise, opting for mezzanine or less prime spaces priced at a lower rate may be sought. Both strategies can be used to further curtail their overhead costs, which will aid in the recovery of their operations.

Lease terms renegotiations are also needed to ensure a non-zero-sum scenario for both retailers and mall operators. As mentioned, rental holidays have already been applied to relieve the tenants of accumulated expenses and ensuring the retention of their leases. Post-lockdown, this trend is expected to continue as landlords can only generate revenue if their tenants remain active. Landlords should consider offering a performance-based rental scheme than fixed rents. Thus, the minimum guaranteed rent (MGR) could be decreased to aid in the recovery of the tenants. Escalation rates of the MGR may also be minimized during the first two (2) years of recovery. This would be followed by a sharp increase in the third year when the businesses are expected to have achieved stable operations. Moreover, the shift towards a performance-based scheme would align the goals of both the mall operator and their tenants which is to strive for higher sales.

A Change in Tenant Preference

Achieving heightened revenues can be a challenge in the socioeconomic climate following the quarantine period. Due to staggered store openings, reluctancy in mall-going and shifted demand towards online channels, foot traffic in retail establishments is anticipated to be minimal. To curb this adverse effect, mall operators and developers could forecast a revision in the desired tenant mix for their respective projects.

The recent rise in neighborhood and community malls has elicited the ease of accessibility of goods to residential areas. This format has proved to be beneficial during the crisis as consumers were able to conveniently avail of their necessities. Hence, tenants offering basic goods and services (e.g. supermarket, pharmacy, hardware, clinic, etc.) should have priority within these developments. On the contrary, regional malls should continue acting as a shopping destinations providing unique offerings to fuel the foot traffic. In the months following the lockdown, preference for larger malls may shift as they are seen to put a high value on tenants which would push for the physical presence of their patrons.

In the past, the tenancy mix of malls has kept changing as a result of the dynamic consumption patterns of the populace. And this would continue to do so as ensued by the ongoing pandemic. Lately, the mall footprint of F&B shops has been expanding – traditionally from 20% to more than 40% in the current setting. Similarly, merchandising stores are transforming into experiential retailers wherein they are more engaging to the shoppers to improve their customer experience. For instance, sports stores are allotting play areas for buyers to try their products. These experiential-based offerings (from casual & fine dining to interactive retailing) are expected to stimulate the retail market by steadily prompting consumer foot traffic. To effectively rouse retail activity, existing mall operators are burdened to ensure that the wellness of their visitors is their top priority. Higher health and sanitary standards are expected to be practiced by both the landlords and their tenants. In the future, however, developers are tasked to integrate more wellness features into new projects.

The Role of Health & Wellness

The presence of consumer healthcare facilities and wellness tenants will become more apparent in the retail scene. Similar to experiential retail, larger space allotments are expected for this type of enterprise. Though other services (e.g. gyms, clinics, etc.) are already present within current malls, this is seen to expand to other related offerings. This may range from specialized fitness centers (e.g. yoga studios) to smaller medical center formats (e.g. diagnostics centers). However, other wellness provisions can only be instituted in upcoming projects as these features need to be integrated at the start of conceptualization and design.

Common areas and features of retail malls may be altered to accommodate the demand of patrons with active healthy lifestyles. Jogging paths within landscaped areas and sports facilities in the upper retail levels may be viewed as favorable additions to their amenities. Likewise, a proper mix between enclosed air-conditioned spaces and open breathing areas should be

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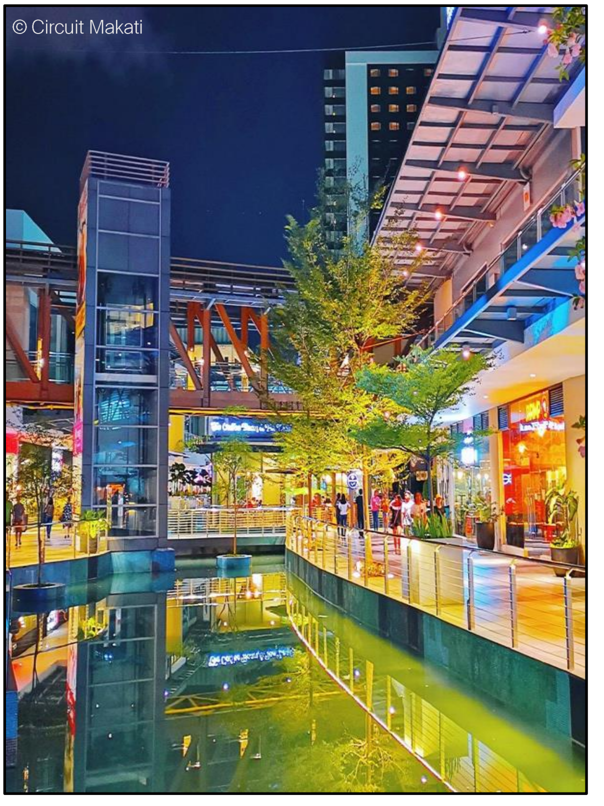
considered in conceptualizing their premises. Lastly, technical features (e.g. air-conditioning and filtration systems, sanitary provisions) of new malls should be improved and well-maintained to further promote health and wellness.

Integrating consumer healthcare and wellness within malls is seen as the emerging tone for the retail segment. Though some of these facilities are regarded as high-contact establishments which would be last to reopen, eventual heightened demand for these services is anticipated. The general populace is seen to become more health-conscious and place more value towards their wellness after the threat of the pandemic.

Adapting to the 'New Normal'

The global health crisis has greatly impacted the retail sector and will continue to do so in the coming months. Despite this, both retailers and landlords can also treat this as a learning opportunity to become more adaptable and sustainable in the future. Business continuity plans should be deemed necessary for retail operations. Likewise, various recovery strategies should already be prepared prior to the lifting of the lockdown. Retailers will continue to reap the benefits from the growing e-commerce activity. This also presents an opportunity for them to strengthen their online presence which may lead to higher Online-to-Offline (O2O) transactions in the future. This will be advantageous in retaining the new clientele derived during the quarantine



period.

In contrast, mall operators should employ marketing strategies when the health risk tapers off. This is to steadily attract the influx of consumers which would bolster the operations of their tenants. There may be a need to reassess the zoning of the different establishments for them to easily open or close-off a portion of the mall when the need arises.

As the retail landscape starts to change post-COVID-19, consumer engagement and health & wellness will become vital. Though some merchants may downsize their spaces, there is an opportunity to explore the expansion of other tenant types. In the coming months, most retailers will become pressured to stay afloat, employing creative and practical strategies to draw customers. But the burden to encourage traffic activity also falls on the mall operators. Ultimately, close cooperation between the landlords and tenants should be done to achieve faster recovery for both parties.

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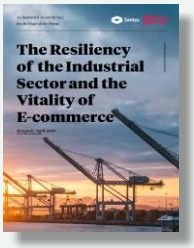

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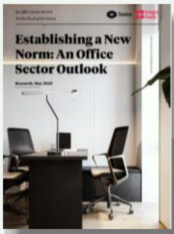

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