

Metro Manila Retail Market

Retail Comeback: The Revival of Brick & Mortar

Q3 2022



General Overview

Metro Manila's retail market showed continued improvement as vacancy rates decreased during the third quarter of 2022. Continuous easing of health restrictions has increased the confidence of people and their families to get out of their homes and head to the malls which are the most common destination places. The issuance of Executive Order No. 07 by the President, which makes wearing of face masks voluntary in both indoor and outdoor settings, is seen to further boost this confidence to go out.

Overall domestic consumption expanded in the second quarter of the year. Household Final Consumption Expenditure (HFCE) increased by 8.0% from the 7.1% growth recorded in the same period last year. Consumption of food and non-alcoholic beverages grew by 3.9% which covers 34.9% of the total household spending. However, consumers are still cautious when it comes to their spending due to the increase in the oil prices and other commodities. It is important to note that transport already makes up 20.5% of the household consumption.

The remodeling and renovation done by some of the malls are nearing completion in time for the anticipated increase in customer traffic during the holiday shopping season. Additional open spaces through the mall expansion and reconfiguring the store layouts were some of the changes done to make the shopping experience more pleasant and convenient for the customers.

New local and international brands have opened up stores across the different malls as foot traffic steadily increased over the previous quarters. Most of the newly opened establishments are either in the categories of food and beverage or clothing and apparel. The strengthening consumer confidence and the coming holiday season has given investors renewed optimism in the market.



Vacancy and Lease Rates

Metro Manila's retail market is steadily recovering as vacancy rate for the third quarter of 2022 further decreased to 3.92% from 4.62% in the previous quarter. Signs of recovery can also be seen from the average lease rate which grew by 0.37% that translated to PHP 1,573.09 per square meter per month. The effects of the pandemic are slowly waning as shown by the increase in consumer spending, revenge travel, and modest increases in foot traffic.

In addition, the waning effects of the pandemic have likewise hastened the return of employees to the office and the resumption of on-campus classes. These factors combined have markedly help in the recovery of the market. This is expected to continue and sustain the retail market's recovery in the coming quarters.

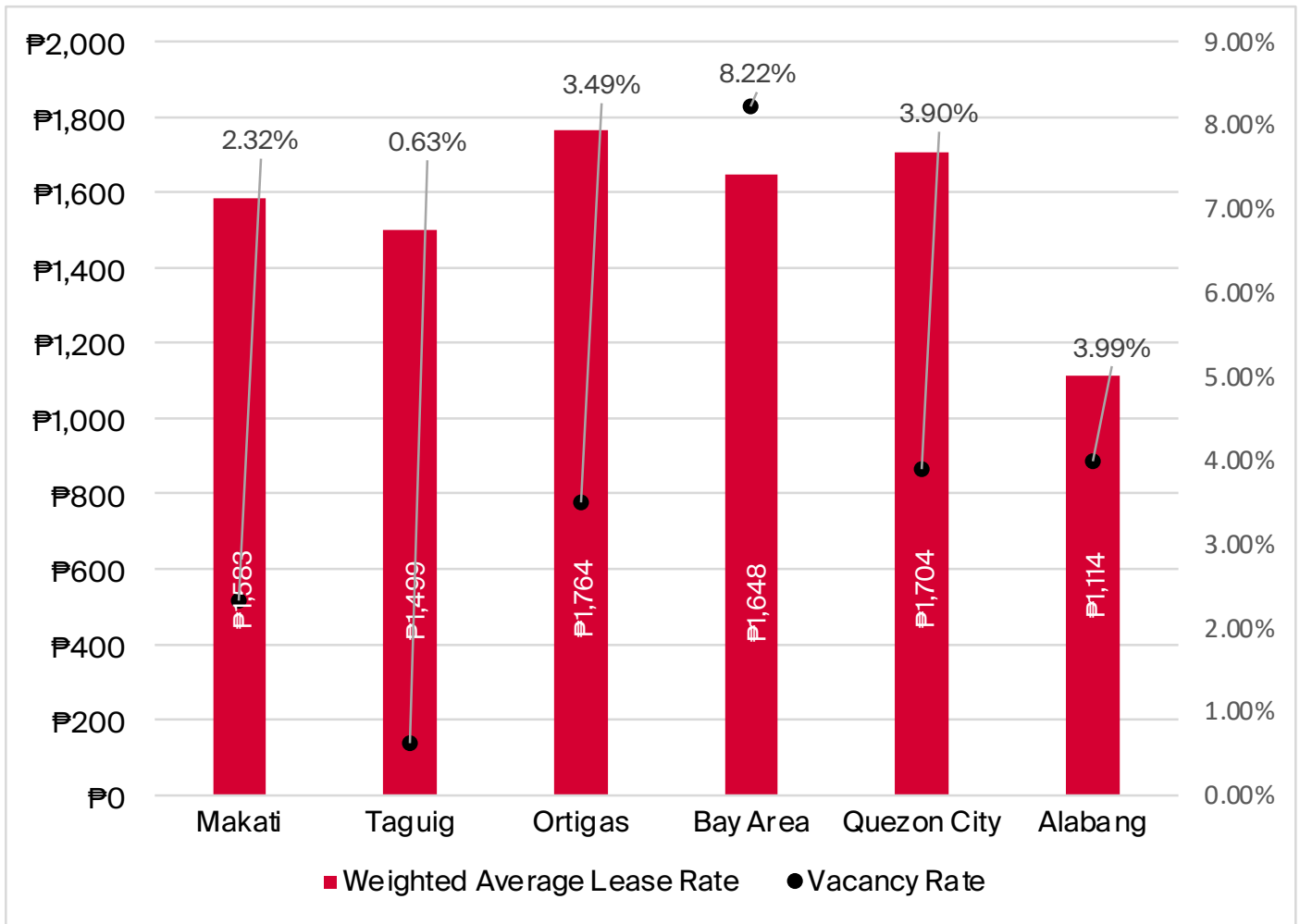
Taguig City posted the lowest vacancy rate among the different business districts at 0.63% followed by Makati at 2.32%. It would be logical to assume that Taguig and Makati have the highest concentration of office employees compared to the other districts given that these districts have the highest number of office spaces in the market. As such, the retail market in these two districts have benefited in the return to the office of the employees.

The Bay Area had the highest vacancy rate at 8.22% since stores that were about to open before the pandemic did not push through. With the exception of SM MOA, the remaining malls in the area have not been doing quite as well which resulted in the higher vacancy rate.

Though the retail industry is generally improving, foot traffic in outlying retail establishments have remained low. Among these are the malls in Ortigas such as Tiendesitas, Estancia, and Ayala 30th. Preference have been shown to the larger malls in the area such as SM Megamall, Robinsons Galleria, Shangrila Mall and The Podium.

Malls with connectivity to the LRT and MRT such as TriNoma, Gateway Mall, Shangrila and Glorietta have benefited from the foot traffic generated by the commuters on their way to and from work and more recently for students who have returned to campus for their classes. This connectivity makes access easier as well for mall patrons who go during the weekends and holidays.

Figure 1.
Metro Manila Retail Average Lease and Vacancy Rating per CBD



Source: Santos Knight Frank Research

Vacancy and Lease Rates

As of the third quarter of 2022, there were at least 184 upcoming stores in the Metro Manila retail sector. The most common types of upcoming brands were food and beverages and clothing and apparel. There will be 58 upcoming Food and Beverage stores accounting for 31.52% of the total, while 54 Clothing & Apparel stores are expected to be introduced into the market this year which comprises 29.35% of the total.

Among the upcoming brands, ChaTraMue, known as one of the biggest tea brands in Thailand, recently opened its first branch in SM Mall of Asia and is also set to open in TriNoma. The famous Thai tea has been known for its soft-serve ice cream, iced green tea, and bubble milk tea. Additionally, Breakfast at Antonio’s, a famous all-day breakfast and bistro in Tagaytay, is soon-to-open in Robinson’s Magnolia. Another restaurant known in Tagaytay is making a comeback in Metro Manila, Tsokolateria is set to open in Greenbelt 5.

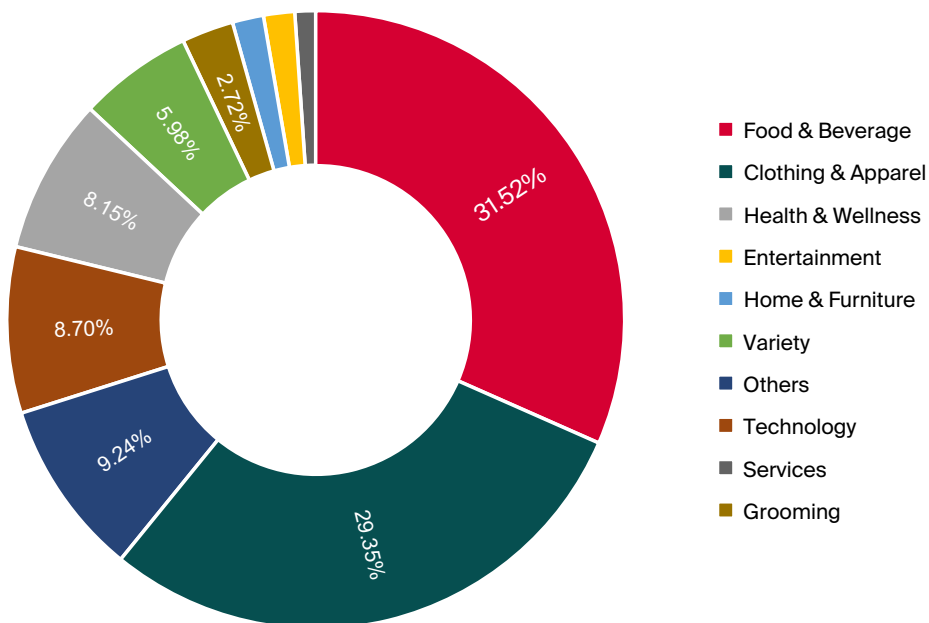


For the Clothing & Apparel brands, Charles Tyrwhitt, which originated from the United Kingdom, is a well-known Jermyn Street shirtmaker set to open in Robinsons Magnolia and SM Aura. The brand is known for its customization of business casual clothing for men. Also, Urban Revivo, a Chinese fast fashion brand, opened its flagship store in SM Mall of Asia. The brand will also open additional stores in Glorietta, Rockwell Power Plant Mall, SM Megamall, TriNoma, and SM North EDSA, delivering runway-inspired and ready-to-wear designer and high-street fashion looks to the Philippine market. In the upcoming holidays, Love Bonito, a Singapore brand, is set to open pop-up stores in SM Mall of Asia, SM Megamall, Uptown Mall, and U.P. Town Center every weekend from November to December. The brand promotes women’s empowerment and offers a wide variety of womenswear, customized and tailored to fit Asian women.

For the shopping malls, the Araneta Group’s Gateway Mall 2 in Quezon City is set for a soft launch by December 2022. It will add 190,000 square meters of floor space to the city’s retail market and offer eleven floors’ worth of local and foreign brands of retail and dining stores.

Mitsukoshi, a Japanese-style shopping mall, recently had a soft opening in Bonifacio Global City. A tripartite development of Isetan Mitsukoshi Holdings Ltd., Nomura Real Estate Development Co., Ltd., and Federal Land Inc., the four-level mall added 30,000 square meters of retail space, or around 120 retail stores rich in Japanese culture and style. Customers will be drawn in because the mall has a variety of restaurants, including Curry House Coco Ichibanya, Ikinari Steakhouse, and Putien. Their supermarket also offers imported delicacies and Japanese inspired culinary offerings. Aside from food products, there is also an expansive beauty section, which is one of the highlights of the mall.

Figure 2. Upcoming Retail Stores in Metro Manila



Source: Santos Knight Frank Research

Holiday Season Awaits

The upcoming holiday season is expected to be different with the current health restrictions being the most lenient since the start of the pandemic. Most notably would be the optional wearing of face masks in both indoor and outdoor settings. This would include malls and other retail establishments.

Additionally, mall hours have been extended in anticipation of growing foot traffic. Retail developers are also preparing for the holiday season by incorporating themes and activities associated with Christmas. Ayala malls is preparing festive activities such as The Nutcracker ballet, which will be held at Greenbelt, TriNoma, U.P. Town Center, Ayala Malls Circuit, Alabang Town Center, Ayala Malls Manila Bay, and Glorietta. Also, all Ayala Malls nationwide will be nutcracker-themed in November and December, with partner merchants participating. These are just some of the ploys to provide a better shopping experience and encourage people to visit the malls during the holiday season.

Trends

Internet shopping platforms such as Lazada, Shopee, and Zalora continue to dominate the online retail market. Retailers took advantage of the growing popularity of e-commerce in which retailers used digital marketing to reach consumers in their homes.

The “buy online and pick up in-store” (BOPIS) service became a trend as customers could receive items faster, have no risk of late delivery, and still enjoy the physical store experience. It will be convenient, especially since foot traffic in malls is expected to increase during the coming holidays. Ayala Malls, Rustan’s, and SM implemented this service giving their customers the option of having their items delivered straight to their homes or picked up at their selected mall.

The Bangko Sentral ng Pilipinas (BSP) collaborated with SM Supermalls to accelerate digital payment growth. To boost digital transactions, they launched Cashless Malling, which will allow customers to shop at SM malls and pay using QR Ph, the country’s QR code standard. QR Ph will enable person-to-merchant (P2M) payments to micro, small, and medium enterprises (MSMEs) that are retail partners of SM. This is currently being offered in Metro Manila but will soon be promoted in the provinces. QR Ph will enable person-to-merchant (P2M) payments to SM retail partners’ micro, small, and medium enterprises (MSMEs).



Outlook

Brick and Mortar is Here to Stay

Despite the fact that the pandemic has pushed retailers to open online stores, brick-and-mortar establishments have been reinvented for the digital age. The current lease rates, occupancy levels and foot traffic are nearing pre-pandemic levels and are seen to improve in the coming months with health restrictions expected to further ease. As overall activity improves, mall operators are not only seeing a complete recovery but also the potential for actual growth in the retail sector.

Mall going has been and will always be a part of the way of life of Filipinos. The practice has been deeply engrained into the Filipino culture and has been visibly shown when people gradually flocked the malls when health restrictions allowed it. This was further heightened when minors and senior citizens were likewise allowed to go.

Though online shopping provides ease and convenience, consumers prefer to buy items in-store because of the sensory experience. How the product looks, feels, fits and smells gives a better appreciation of the item being purchased.

With the evolving consumer behavior, retailers are optimizing their physical store portfolios, while simultaneously improving their online presence to provide a better shopping experience. The future of retail is a harmony between online and in-store shopping.



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