Asian Cities Report
Beijing Retail
1H 2017
Economic overview

City-wide retail sales recorded an annual growth of 6.5% in 2016 to RMB1.1 trillion, although 0.8 of a percentage point (ppt) less than the increase in 2015. Online retail sales continued their strong momentum, accounting for 18.6% of total retail sales during the same period.

According to the latest data from the Beijing Municipal Statistics Bureau, urban disposable incomes per capita grew 8.4% YoY in 2016; expenditure per capita registered a growth of 4.4% YoY over the same period.

Supply and stock

The market received a significant level of new supply in 2H/2016, with seven new projects contributing a combined retail GFA of approximately 770,000 sq m. In line with the trend of decentralisation, all new supply during the period was located in non-prime and suburban submarkets.

The standout projects of the period included:

- The Longfor Group launched their second “Paradise Walk” project in Beijing, in the Daxing district. The shopping mall is located directly above the Biomedical Base metro station (Daxing line) with a retail GFA of 154,000 sq m. The mall is occupied by renowned brands and is a fully-integrated commercial complex offering a rich user experience. Strong pre-commitment rates have seen the project achieve an occupancy rate higher than 95%, setting a solid foundation for its successful operation. The project fills the consumption gap in the Daxing district in southern Beijing and is expected to pull up family spending in the region with a variety of F&B, entertainment and children’s-related offerings.

- Inzone Harmony Mall launched onto the market in the Fengtai district on 10 September, contributing 140,000 sq m of retail GFA. The project is well serviced by public transport, and is within short walking distance of Liliqiao metro station (lines 9 and 10). The community-based shopping mall experienced strong tenant pre-commitment which saw it reach an occupancy level of 98% on opening. Looking to attract consumers from the rapidly maturing surrounding residential communities, major tenants included Inzone Supermarket, Jinyi Cinema, Decathlon and MUJI.

- Fengtai Wanda Plaza launched onto the market in December 2016, adding approximately 127,000 sq m of retail GFA. Located in the Fengtai district, the mall has focused on filling the consumption gap in the rapidly maturing residential community. Backed by an experienced developer, the project was fully occupied on opening. The project is anchored by large retailers under the Wanda Group umbrella, including Wanda Cinema, Super Player and Kids Place. In addition, the project has also incorporated other well-known brands such as Yonghui Supermarket, Zara and Uniqlo.

Other new openings included Hengtai Plaza, also in the Fengtai district, Greenland Being Funny Phase II in the Daxing district, and Jingtougang-Changyang in Fangshan. All positioned as community-oriented malls, these new projects are expected to both facilitate the development of commercial environments in their respective areas and serve as supporting facilities for the surrounding emerging residential communities.

The market continued to see department stores closing due to sluggish performance. During 2H/2016, Beijing Sun Palace Parkson in the Lufthansa area exited the market and Ito Yokado Department Store closed two of their branches in the Daxing and Shilipu districts. It has been reported that both properties will be converted to office usage in the near future. In addition to this, the Hualian Department Store in the Majiapu area closed for refurbishment during 2H/2016, with the intention to reopen as a shopping mall in 2017.

Demand and occupancy rates

Leasing demand remained strong during the period, particularly in...
Largely due to strong demand driven by fashion retailers, first-floor shopping mall rents continued to edge up during the quarter, by 1.6% HoH to an average of RMB926.9 per sq m per month. Average prime rents increased by 0.6% HoH to RMB1,197.0 per sq m per month. Malls, such as Taikoo Li Sanlitun and Parkview Green, continued to appeal to well-known international retailers and market entrants, consequently enabling them to sustain strong rental performances. Non-prime markets continued to achieve strong growth levels, with average rents increasing by 2.6% HoH to RMB701.0 per sq m per month. Sub-regional malls such as Indigo, Paradise Walk (Changying) and Joy City (Chaoyang), continued to benefit from residents’ growing demand in the surrounding areas, and thus remained favourable choices for retailers’ expansion plans.

Market outlook
The market is expected to receive an influx of supply in 2017, with 14 mid- to high-end shopping malls contributing a total of approximately 1,105,600 sq m. With around 80% expected to come from non-prime and suburban markets, it is expected that the city will see a growing number of emerging retail clusters in outlying areas.

Despite the expectation that retail sales will continue to slow down in line with economic growth, it is forecast that retailers will continue to maintain a strong level of demand due to a number of factors. Firstly, it is expected that international retailers will continue to view Beijing as a key starting point when looking to enter the northern China market. Secondly, it is anticipated that retailers will continue to actively extend their footprints in the outlying areas of the city as rapidly developing infrastructure is seeing the majority of projects in these locations become increasingly accessible to the public.

Non-prime and suburban markets saw occupancy rates hold relatively stable during 2H/2016, largely due to high pre-commitment rates in the newly-opened malls. Non-prime occupancy rates dropped by 0.1 of a ppt HoH to 95.0%, while those in the suburbs increased 0.5 of a ppt HoH to also reach 95.0% by the end of 2H/2016. With growing residential populations gathering in these areas, it is expected that retailers will maintain a positive outlook with regards to malls in these locations, which in turn is expected to fuel the rapid maturity of a number of projects.

International retailers had a boost in performance in terms of expansion activity during the period. A selection of mid- to high-end fashion brands looking to tap into the burgeoning middle class market made their debuts in the city. Notable store openings included:

- Abercrombie & Fitch opened a two-storey 600-sq m shop in Taikoo Li Sanlitun (South).
- Lululemon, a Canadian athletic apparel retailer, opened in Taikoo Li Sanlitun (North).
- Lucien Wang, a high-end designer brand, launched its first regular store in the city in Parkview Green in the CBD.

Fast-fashion retailers also opened new stores and continued to expand their footprints into non-prime markets. Transactions of interest saw Forever 21 commit to a store in U-Town Lifestyle Center, and Uniqlo consecutively open three new stores during the quarter, all of which are located in emerging retail clusters.

Benefitting from robust leasing demand in 2H/2016, city-wide average shopping mall occupancy rates increased by 0.5 of a ppt half-on-half (HoH) to 95.0%. By submarket, occupancy rates in prime locations climbed 0.6 of a ppt HoH to 93.6% as some ongoing tenant readjustment strategies by operators finally reached a conclusion.

An intensive pipeline of new supply will trigger increased competition, particularly in areas with a developing commercial environment. Malls in such areas are likely to see higher vacancy rates and lower rents. However, it is expected that experienced landlords will be responsive to market change and adopt suitable tenant adjustment strategies for their projects in order to maintain their growth momentum.

Major commercial land transactions, 2H/2016

<table>
<thead>
<tr>
<th>Plot</th>
<th>District</th>
<th>GFA (sq m)</th>
<th>Consideration (RMB billion)</th>
<th>Buyer</th>
</tr>
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<tbody>
<tr>
<td>Tongzhou Plot</td>
<td>Tongzhou</td>
<td>1,643,730</td>
<td>8.7</td>
<td>BSH Investment</td>
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<td>Fangshan Plot</td>
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<td>21,200</td>
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<td>Longian Chengxin</td>
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<td>Haidian 2016-020</td>
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<td>183,340</td>
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<td>COFCO Land/ Beijing Capital Land/Tianheng</td>
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<td>Fangshan 2016-023</td>
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<td>178,120</td>
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<tr>
<td>Haidian 2016-018</td>
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<td>Vanke</td>
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<td>Vanke/BUCC</td>
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<tr>
<td>Daxing 2016-021</td>
<td>Daxing</td>
<td>135,280</td>
<td>3.7</td>
<td>China Railway Construction</td>
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</tbody>
</table>

Source: Savills Research

TABLE 1

GRAPH 4
Land transaction volumes, Q1/2008–Q4/2016

GRAPH 5
First-hand strata-title retail sales, Q1/2006–Q4/2016

Source: Savills Research
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