

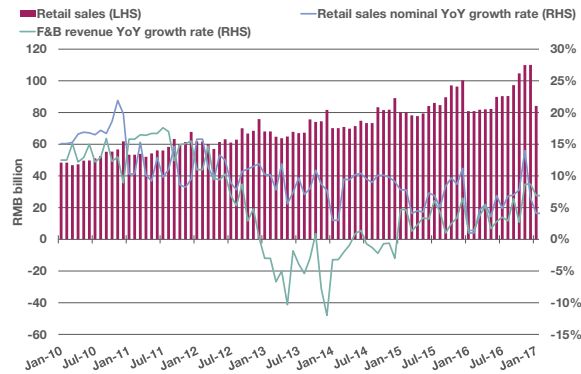
Asian Cities Report

Beijing Retail

2H 2017

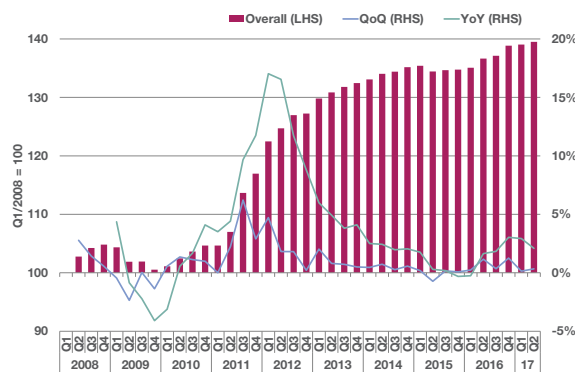


GRAPH 1
Beijing retail sales, 1H/2010–1H/2017



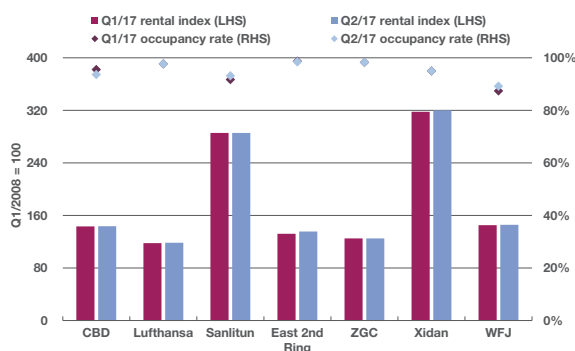
Source: Beijing Municipal Bureau of Statistics

GRAPH 2
First-floor shopping mall rental index, Q1/2008–Q2/2017



Source: Savills Research

GRAPH 3
Major retail area vacancy rates and rental index, Q1/2017 vs Q2/2017



Source: Savills Research

Economic overview

Retail sales in Beijing continued to increase, up by 5.6% year-on-year (YoY) to RMB525.7 billion in the first half of 2017. Online retail sales also continued to record strong growth momentum, registering a 15.4% YoY increase to RMB94.9 billion, and accounting for 18.1% of total retail sales during the same period.

Supply and stock

The first half of 2017 welcomed only two new projects. In addition, the market witnessed the conversion of a department store into a shopping mall. By the end of 1H/2017, total shopping mall stock increased to 8.9 million sq m, while department store stock declined to 2.1 million sq m. The new projects of the period included:

- HI-UP launched onto the market in March 2017, adding approximately 58,500 sq m of GFA. Located in the Wukesong district, with direct access to Wukesong Station on Subway Line 1, the project is a welcomed commercial development which should serve well as a supporting facility for the surrounding residential community. Low pre-commitment rates saw the project achieve an occupancy rate of only around 60% upon opening; however, this climbed to around 80% by the end of 1H/2017.

- China World Mall Phase III B in the CBD district made its debut during the first half of 2017, contributing 100,000 sq m of retail GFA to the market. The new opening now sees all of the China World buildings linked together into one large complex which is now entirely accessible from the Guomao Station of Metro Lines 1 & 10. The new project's opening coincided with the launching of the China World Trade Center III B office tower, and is expected to be a welcomed supporting facility and attract footfall from the white collar workers in the area. Spread over eight floors, the mall is heavily focused on fashion retailers from basement level one up to the third floor; levels four to seven feature a concentration of F&B retailers, which will provide a huge boost to the food scene in the CBD district. Entertainment retailers have also been included in the mix, with a large K Party KTV expected to help drive footfall to the project. Relatively strong pre-commitment rates have

seen the mall achieve an occupancy rate of approximately 80%, with the remaining vacant space expected to be absorbed over time.

- SOLANA-Wukesong also debuted in the Wukesong district during the period. Previously known as the Charter Shopping Center, this 340,000-sq m department store opened in 2012; the project has been acquired by Solana and repositioned as a shopping mall. Despite the project still being in a transitional stage, with an occupancy rate of only approximately 60%, if the developer is able to leverage the success of their sister project, SOLANA Lifestyle Shopping Park in the Lufthansa district, they remain hopeful that performance will improve. The project has already been able to attract a number of well-known retailers, with H&M, GAP and Jackie Chan Cinema all securing leases.

Department stores across the city continued to struggle to survive in the increasingly challenging retail market. Besides the aforementioned, closures during 1H/2017 included:

- Parkson, in the Changying district, exited the market, reducing total department store stock by 35,000 sq m. The Malaysian-based Parkson was an early foreign entrant to the China market, opening their first department store in the country in 1994 in Beijing on Fuxingmen Road, which is now their only remaining department store in the city.

- Junefield SOGO, located in the Xidan district, announced they will be exiting the market, with rumours the project will be converted to office usage in the near future.

Demand and occupancy rates

'New retail' continues to expand its footprint in the city, merging the lines between online and offline retail. Proactive retailers have already begun to form strategic alliances with key internet players to assist them with their online-to-offline (O2O) initiatives. Partnering with internet companies has granted retailers access to massive traffic sources, along with big data and logistic frameworks. Online retailers have also made moves to expand into the bricks-and-mortar business, with activity including:

■ He Ma Xian Sheng from the Alibaba Group, a vertical online retailer specialising in fresh produce, launched its first store in City Mall in the Chaoyang district.

■ Bravo YH announced they will launch their first Super Species store in Beijing's Shijingshan district later this year. The fresh produce specialty store merges APP shopping, in-store shopping and dining experiences.

■ Meituan committed to opening an O2O store, Zhang Yu Sheng Xian, in Botai International Plaza in the Wangjing district.

City-wide shopping mall occupancy rates decreased by 1.6 percentage points (ppts) half-on-half (HoH) to 93.4% during 1H/2017.

Prime areas saw a slight increase in occupancy rates during the first half of 2017, up 0.6 of a ppt HoH to 94.0%. Prime markets continued to attract retailers, with a number of projects showing improved performance during the period. The Place, in the CBD district, finished renovations of their third and fourth floors, while Beijing APM in the Wangfujing district also posted improved occupancy. Despite improved performance by a number of malls, vacant space in the newly-opened China World Mall Phase III B in the CBD district dampened a larger overall growth.

Non-prime markets witnessed a decline during the period, largely due to the relatively high vacancy rate seen in the newly-converted SOLANA-Wukesong project. Non-prime occupancy rates dropped by 2.7 ppts HoH to 92.3%, while occupancy rates in suburban markets held stable at 95.0% by the end of 1H/2017.

City-wide shopping mall first-floor rents continued to edge up during 1H/2017, increasing by 0.5% HoH and 2.1% YoY to an average of RMB931.6 sq m per month.

Average prime rents increased by 0.5% HoH and 1.0% YoY to RMB1,203 per sq m by the end of 1H/2017.

Non-prime rents increased by 0.6% HoH and 3.2% YoY to RMB705 per sq m by the end of 1H/2017.

Market outlook

The remainder of 2017 is expected to see three new mid- to high-end shopping malls debut and contribute a total retail GFA of approximately 240,000 sq m.

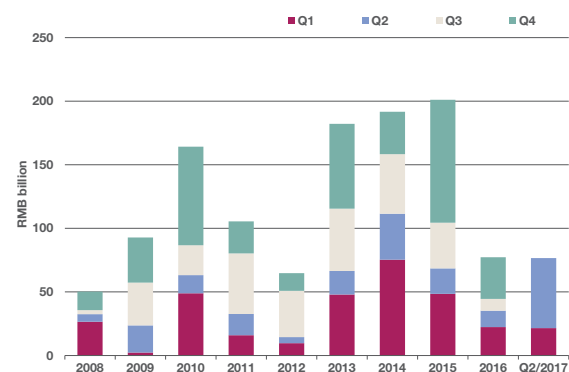
According to announced strategic plans, some leading real estate developers will pay increased attention to developing retail projects in non-prime areas over the next three years. For example, Huayuan Property and COFCO Group recently announced a strategic collaboration which will see them develop a new Joy City shopping mall in the far west of Beijing under an asset-light model, and Longfor Group will launch a new Paradise Walk project in Liangxiang in the Fangshan district next year.

With a number of quality projects planned to launch in various districts around the city, the development of Beijing's retail market will continue down its path of decentralisation.

Demand for traditional high street shops from mid- to high-end brands is expected to remain robust in Beijing. It is anticipated the market will continue to enjoy first-mover advantage from retailers looking to enter the Northern China region. Given this, city-wide shopping mall first-floor rents have the potential to climb.

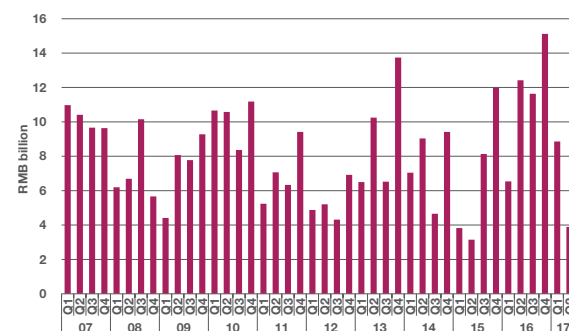
'New retail' will continue to rise in prominence. Retailers will continue to accelerate the development of their O2O strategies, with a growing emphasis on the application of big data technology to improve consumers' shopping experiences. On the landlord side, it will be essential to pay heightened attention to tenant-mix strategies and additional service innovations to attract consumers and improve mall performances. ■

GRAPH 4 Land transaction volumes, 2008–Q2/2017



Source: Savills Research

GRAPH 5 First-hand strata-title retail sales, Q1/2007–Q2/2017



Source: Savills Research

TABLE 1 Major commercial land transactions, 1H/2017

Plot	District	GFA (sq m)	Consideration (RMB billion)	Buyer
Shunyi 2017-038	Shunyi	155,100	7.05	Vanke / Dongfang Huamei / Longfor / Shokai
Daxing 2017-02	Daxing	86,000	6.98	Shokai / China Overseas / Poly / Longfor
Fengtai 2017-014	Fengtai	230,400	5.84	China Development Orient / Vanke
Fengtai 2017-035	Fengtai	73,900	4.34	Shokai / China Resources / Jinmao / Jintang
Chaoyang 2017-019	Chaoyang	92,100	2.85	Anar / BUCG

Source: Savills Research

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