

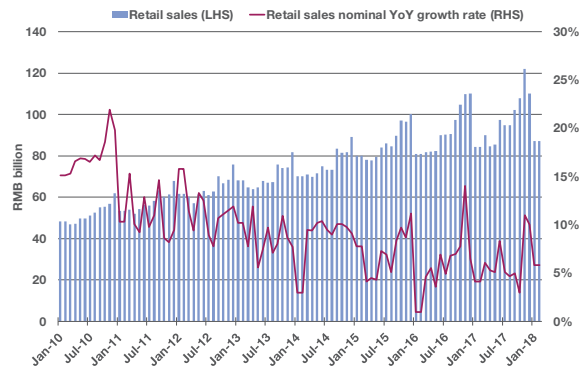
Asian Cities Report

Beijing Retail

2H 2018

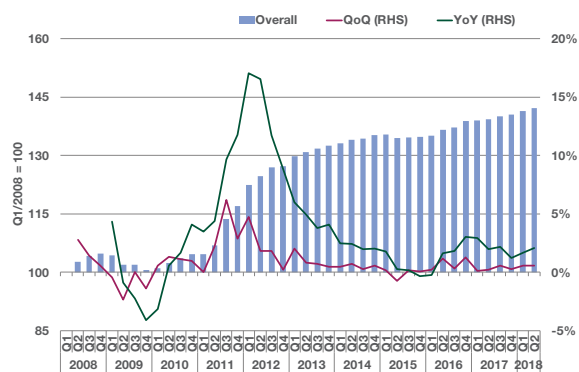


GRAPH 1
Beijing retail sales, 1H/2010 – 1H/2018



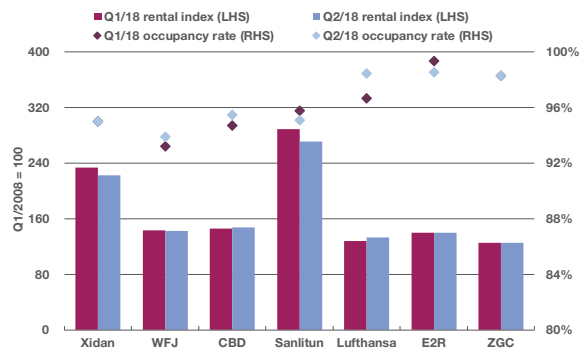
Source: Beijing Municipal Bureau of Statistics

GRAPH 2
First-floor shopping mall rental index, Q1/2008 – Q2/2018



Source: Savills Research

GRAPH 3
Major retail area vacancy rates and rental index, Q1/2018 vs Q2/2018



Source: Savills Research

Economic overview

Retail sales in Beijing were up 4.4% year-on-year (YoY) to RMB539.8 billion in 1H/2018, although the growth rate continued to slow. Total retail sales of consumer goods reached RMB486.3 billion, of which the F&B industry accounted for RMB53.5 billion. Online retail sales continued to record strong growth, registering a 22% YoY increase to RMB113.7 billion and accounting for 21.1% of total retail sales.

Supply and stock

Beijing's retail market saw only two new projects launched in 1H/2018, with non-prime and suburban markets receiving one project each. As a result, total shopping mall stock increased to 9.72 million sq m, while department store stock remained at 2.1 million sq m. The new projects included:

- UniFANs, the retail component of the mixed-use China Overseas International Centre, is the first retail project under China Overseas' UniFANs banner in Beijing. The project covers an area of 35,000 sq m across six floors (B1 to L5). Strong pre-commitment rates saw the mall achieve an occupancy rate of approximately 80% upon opening. Major tenants include CITIC Books, Starbucks Reserve, Super Species and Huaxia Cinemas. While the Asia-Olympic precinct already accommodates a number of Grade A office projects, it currently lacks large and high-quality retail. The new project is welcomed and will be another destination for the surrounding working population.

- Mall & More is the retail component of the mixed-use project Han's Plaza. The 65,000 sq m three-storey project hosts a variety of retailers from the culture and arts, lifestyle and F&B categories. Strong pre-commitment rates saw the mall achieve an occupancy rate of approximately 85% upon opening. 74% of the retailers were making their first entry into Yizhuang town in Daxing. Major tenants included: 7Fresh by JD.com, Uniqlo, CGV Cinemas, CITIC Books and an indoor children's park "Moofun".

Project upgrading, conversion and transformation

In response to consumption upgrade demand and changing consumer

behaviour, the transformation of the offline retail market has accelerated through innovation, renovation and repositioning. Meanwhile, some landlords who have opted not to invest in retail transformation are looking to convert their malls, either part or all of the property, into other uses.

Beijing Cultural Silicon Company recently took over Solana Wukesong. While detailed plans have not yet been revealed, the project is expected to undergo a significant reconfiguration. Solana took over the management of the building in early 2017, and prior to this it was branded as Charter Shopping Centre. Despite Solana's efforts to reposition the mall by increasing the proportion of child-related and sports retailers, and targeting families, the mall still experienced high vacancy rates, which made it challenging for Solana to achieve positive results.

Beicheng Shopping Centre in the Asia-Olympic area closed in January to undergo a tenant-mix adjustment. In addition, Hualian Anzhen in the same area suspended operations in April for renovations. The mall is now entirely vacant except for Hualian Supermarket, which is still operating.

Changing Longfor Paradise Walk opened a new space called "Hua Jian Xiang" in the end of June. The space was previously occupied by Parkson Department Store before it closed in May 2017. The new space spans an area of 34,000 sq m across B1 to F4. Currently, almost 80 tenants, including Lego Discovery Centre, SISYPHE Park Books and Ink+Ivy Furniture, have been introduced.

Landgent City Mall reopened on 1 May after renovations and upgrading. Rebranded as "Space 3", the project features an artistic design and atmosphere. The project has placed heightened emphasis on consumer experience through increasing the proportion of lifestyle services, children's education and fine dining retailers.

Demand and occupancy rates

As the growth rate of new internet users slows and online profit margins shrink, retailers can no longer rely solely on online retail platforms. This

has made the integration of online and offline retail an inevitable trend. Looking to capitalise on this trend, IT unicorns have actively increased their investment in offline retail companies with the aim to upgrade their value chains and achieve strategic and capital targets. These include:

- Easy Home announced in February that it had received a total investment of RMB13 billion, of which RMB5.45 billion was from Alibaba and its affiliated companies. The contribution from Alibaba is equivalent to a 15% share of Easy Home.

- Tencent purchased a 5.31% stake in Heilan Home for a total consideration of RMB2.5 billion in February 2018.

Pop-up stores, which often revolve around a certain theme, can help retailers to showcase their products offline and receive face-to-face consumer feedback. The trend has emerged as one of the most favoured forms of brand marketing with a number of retailers opening pop-up stores to promote their new seasonal products in 1H/2018. Recent activities included:

- Louis Vuitton opened a Hawaii-themed pop-up store in Beijing SKP in CBD in January to promote its new line of men's clothing and bags.

- "Prada Spirit" was launched in Beijing SKP in February. The space featured an exclusive selection of goods and resembled a traditional Italian café.

- Yves Saint Laurent opened a pop-up store in Taikoo Li Sanlitun. The store looked to promote new products and the opening of its online Tmall store. The company created an app for its beauty line which allowed users to virtually enter the pop-up store before it opened to the public.

- Alexander Wang, world-renowned fashion designer, teamed up with Magnum to launch The Magnum Pleasure Store in China Central Place. The opening marked the first stop of a multiple-city tour and will also serve as a platform for the designer to introduce a specially designed cooler handbag.

The city-wide shopping mall average occupancy rate increased by 0.1 of a ppt QoQ to 93.1%, although was down 0.3 of a ppt YoY. City-wide shopping mall first-floor rents registered a growth of 0.6% QoQ, an average of RMB932.2 per sq m per month, up by 2.1% YoY.

Prime areas saw the average occupancy rate increase by 0.7 of a ppt QoQ to 95.7%. Meanwhile, rents were up by 0.5% QoQ and 1.7% YoY to an average of RMB1,200.3 per sq m per month.

Non-prime areas saw the average occupancy rate increase by 0.2 of a ppt QoQ to 93.2%. Meanwhile, rents were up by 0.5% QoQ and 2.6% YoY to an average of RMB716.5 per sq m per month.

Market outlook

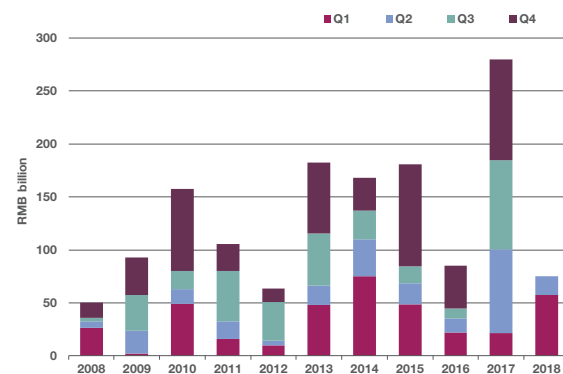
Three new mid- to high-end shopping mall projects are scheduled to debut in 2H/2018, contributing a total GFA of approximately 426,000 sq m.

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.

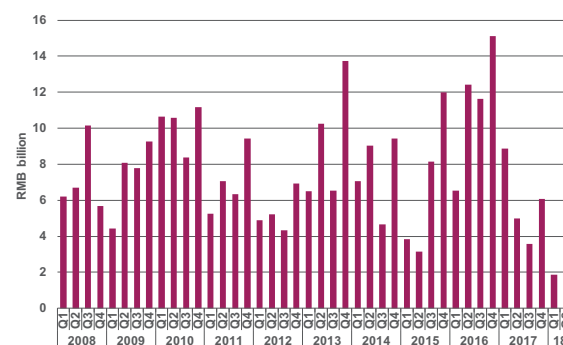
The retail industry is going through a stage of evolution where the lines between traditional retail and "new retail" are constantly being blurred. The "new retail" model is rapidly being adopted and has emerged as the key vehicle for traditional retailers to transform and upgrade their business models. Retail projects will continue to work to create a greater consumer experience by reconfiguring their spaces and creating more value. ■

GRAPH 4 Land transaction volumes, 2008 – 1H/2018



Source: Savills Research

GRAPH 5 First-hand, strata-title retail sales, Q1/2008 – Q2/2018



Source: Savills Research

TABLE 1 Major commercial land transactions, 1H/2018

Plot	District	GFA (sq m)	Consideration (RMB bil)	Buyer
Daxing 2018 – 007	Daxing	122,424	1.83	JD.com
Fangshan 2018 – 011	Fangshan	119,494	0.74	Beijing Fund Town Holdings/ Beijing Fund Town Shengquan Investment

Source: Savills Research

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