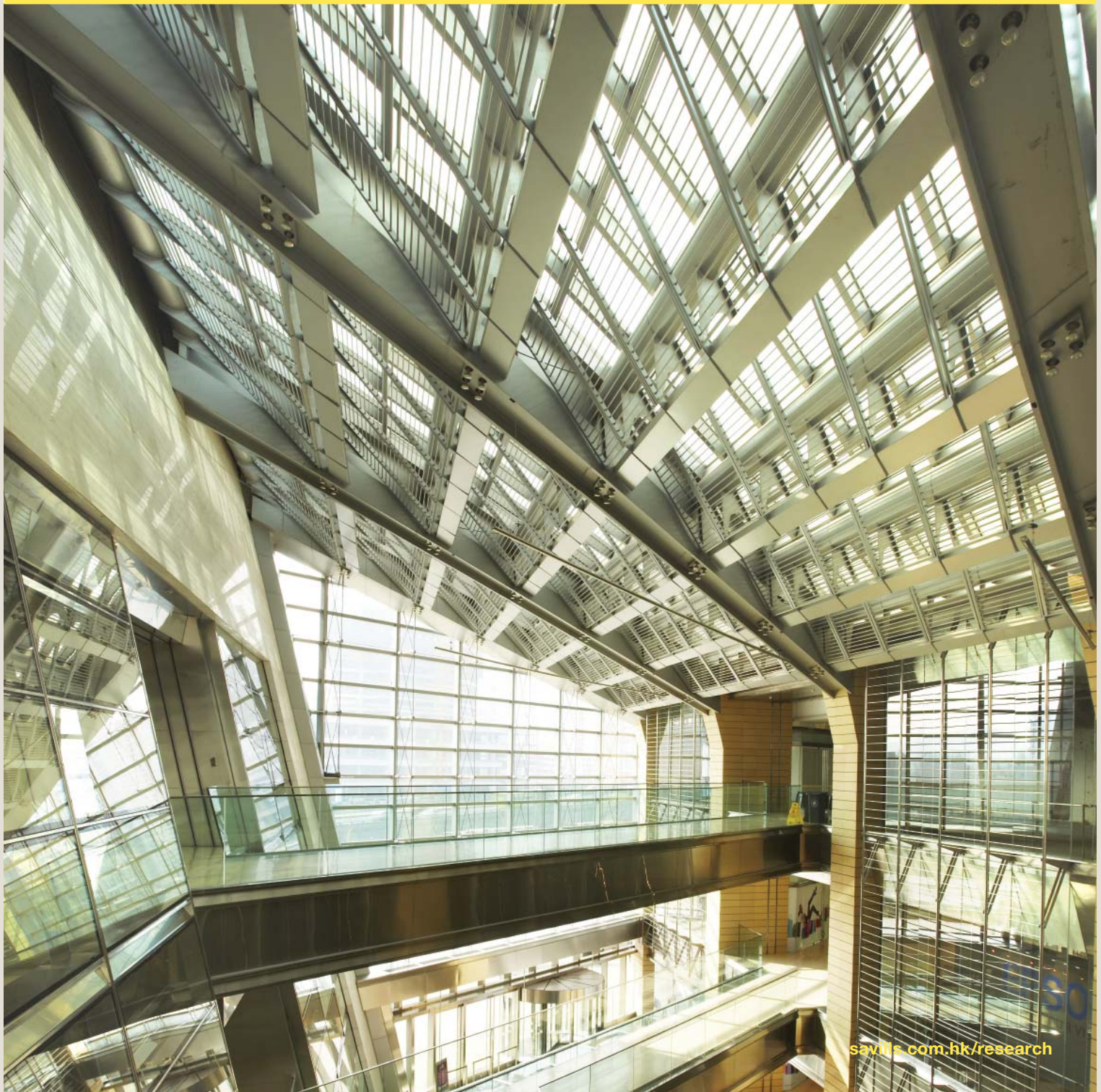


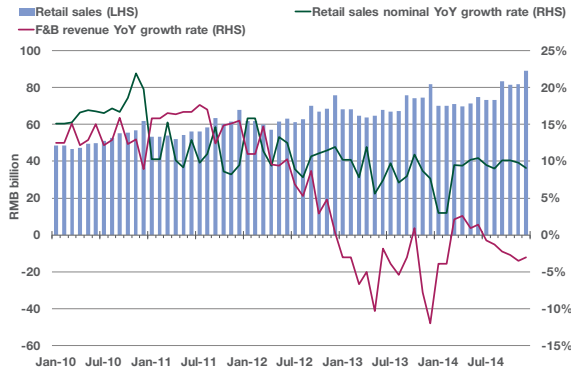
Asian Cities Report

Beijing Retail

1H 2015

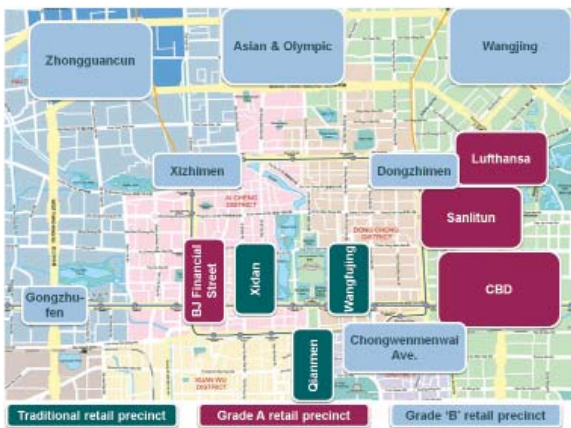


GRAPH 1
Beijing retail sales, Jan 2010–Nov 2014



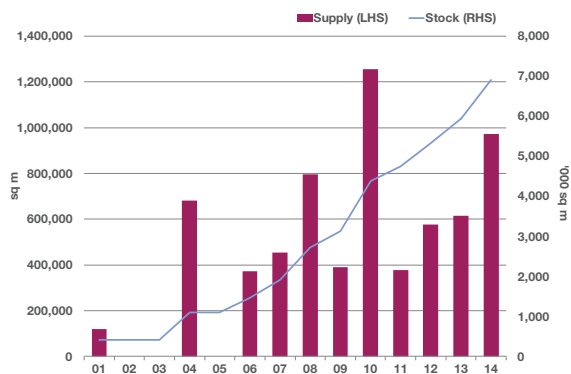
Source: Savills Research & Consultancy

MAP 1
Major retail catchments, 2H/2014



Source: Savills Research & Consultancy

GRAPH 2
Mid- to high-end retail supply and stock, 2001–2014E



Source: Savills Research & Consultancy

Economic overview

Retail sales in Beijing reached RMB909.8 billion in 2H/2014. Online retail sales continued to display particularly aggressive growth, up 68.3% during the same period. Meanwhile, urban disposable incomes per capita grew 9.2% year-on-year (YoY) by the end of November, with expenditure per capita registering growth of 6.4% YoY over the same period.

Market overview

Prior to 2007, Beijing's retail market was largely composed of department stores, managed by both domestic and international operators. Over the past few years, however, shopping centres have become increasingly common and now dominate the market.

Beijing's retail market can be principally subdivided into traditional, Grade A and Grade B retail precincts, and emerging areas.

- Traditional precincts include Wangfujing (WFJ), Xidan and Qianmen. They cater to tourists and local residents, and are dominated by both domestic and international fashion and F&B retailers.
- Grade A precincts include the CBD, Lufthansa, Sanlitun and Beijing Financial Street (BFS) and target expatriates and white collar workers, and are therefore dominated by high-end and fast-fashion brands, F&B outlets and entertainment retailers.

- Grade B precincts include areas primarily located around residential communities and/or transportation hubs. They cater to nearby residents and, subsequently are dominated by hypermarkets, services, F&B and entertainment operators.

- Emerging markets are beyond the Fourth Ring Road. As Beijing's population expands, retailers looking to expand and capture market share are increasingly exploring and expanding into non-prime locations.

Supply

Beijing's mid- to high-end retail stock reached 10.0 million sq m by the end of 2H/2014, compared with Shanghai's

stock of roughly 8.2 million sq m. Of Beijing's mid- to high-end retail stock, only 40% is accounted for by department stores and the rest is shopping centres.

The market experienced three surges in supply, the first of which was in 2008 (1.1 million sq m) which coincided with the Olympic Games. The second was in 2010 (1.8 million sq m) which was largely attributed to the completion of several projects which were postponed due to the global financial crisis. While downtown areas move into their maturity phase, retailers looking to capture market share are increasingly looking to expand into suburban areas and decentralised locations. This trend has been in evidence particularly in 2014, with several sizable projects located in non-prime areas outside the Fourth Ring Road launched onto the market, bringing the third supply peak of nearly 1.0 million sq m of retail space.

Demand

Beijing has long been viewed as an essential destination for domestic retailers looking to establish a name for themselves, as well as international retailers looking to tap into the China market. This is not only due to the wealth within the city, but also the fact that the locals are some of the most brand-conscious consumers on the mainland, and therefore help to set trends for the rest of the country.

Starting in the 1990s, luxury retailers such as Louis Vuitton, Gucci, Burberry, Chanel and Cartier, established themselves in the capital city, primarily in the CBD, Lufthansa and WFJ.

Fast-fashion retailers, such as Zara, H&M, Uniqlo, C&A and Gap, began to enter the market in 2008. Their interest in the market was in response to the growing middle-class, a trend seen across many of China's cities after the Beijing Olympic Games.

While the global financial crisis caused a number of international retailers to slow their expansion plans, China's rapid economic recovery, and subsequent rising retail sales, reassured them of the positive long-

term prospects of the market. In 2011, retailers, particularly high-end fashion brands, jewellers, automotive companies and F&B retailers, renewed their expansion plans.

Since 2013, a slowing national economy and an ongoing anti-corruption campaign have seen luxury retailers continue to be cautious in terms of expansion plans. However, second-tier luxury and designer brands accelerated their expansion, with prime projects in core locations such as the CBD, Wangfujing and Sanlitun as their priority.

Prime retail projects located in core retail areas such as Wangfujing, Xidan and Sanlitun continued to witness high occupancy rates of 96.5%, 99% and 98%, respectively, supported by retailers on long waiting lists. However, projects located in non-prime and suburban areas struggled to improve tenant mixes and secure healthy occupancy rates due to immature retail environments.

Rents

Mid- to high-end shopping centre first-floor rents ended 2H/2014 at around RMB902.6 per sq m per month. Rental appreciation registered a YoY growth of 2.0%, the slowest pace since 2010.

Traditional catchments command the highest rents in the city, at roughly RMB1,520 per sq m per month. Meanwhile, Grade A and Grade B retail districts command average rents of RMB1,040 and RMB790 per sq m per month respectively, and are much more susceptible to wider changes in market conditions.

Non-prime projects, on the other hand, suffered from slower sales volumes and were unable to raise rents. Despite positive occupancy rates in most projects, some landlords of projects located in non-prime areas had to compromise on rents to attract suitable tenants. This continued to restrain overall rental growth

Outlook

The market is expected to witness a further supply peak, with 11 projects scheduled to enter the market in

2015, 94% of which are shopping centres, adding a total retail GFA of approximately 1 million sq m. The lack of available supply in core areas is expected to see the decentralisation trend continue in the coming year as over 90% of new supply will be located in non-prime areas such as the Fengtai, Daxing and Fangshan districts, and Pinggu county. The majority of new projects will continue to be operated by experienced landlords and benefit from the increasing expansion of the Beijing subway network. However, given their non-prime locations and immature retail ambiances, it is expected that landlords will continue to be pressured to compromise on rents and to offer other incentives to attract a suitable tenant mix and healthy pre-commitment rates. As a result, it is expected overall rental growth will continue to further slow in the coming year.

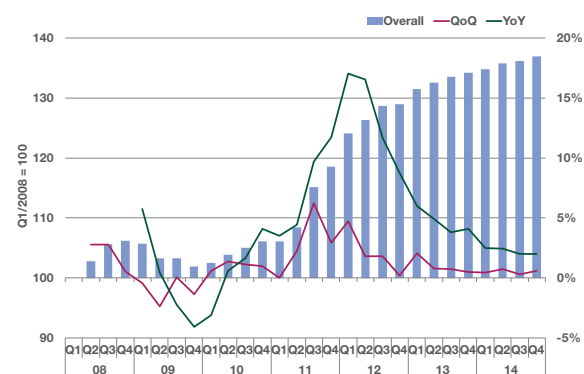
Overall rental growth is expected to be restricted to around 5%, although mature retail areas will continue to see positive rental growth leading to a divergence in rents between areas. While projects in prime locations will continue to receive names added to the long waiting lists from both overseas and domestic retailers, as the market continues to decentralise, vacant space in newly launched projects in non-prime locations is expected to see city-wide occupancy rates experience a moderate decline. ■

TABLE 1
Recent major leasing transactions, 2H/2014

Tenant	Project	Retail area	Leased area (sq m)	Trade
Pacific Coffee	Qianmen project	Qianmen	100	F&B
Nongtangli	Beijing Mall	WFJ	110	F&B
Forever 21	LIVAT Xihongmen	Others	150	Fashion
Old Navy	LIVAT Xihongmen	Others	180	Fashion
Max Mara	Parkview Green	CBD	140	Luxury
Coach	China World Shopping Mall	CBD	70	Luxury
Diane Von Furstenberg	Seasons Place	BFS	180	Luxury
ETRO	Charter Shopping Centre	Wukesong	200	Fashion
ETRO	SKP	CBD	150	Fashion

Source: Savills Research & Consultancy

GRAPH 3
Mid- to high-end shopping mall first-floor rents, Q1/2008–Q4/2014



Source: Savills Research & Consultancy

TABLE 2
Retail supply, 2H/2014

Project	Retail GFA (sq m)	Retail area
Lippo Plaza BHG Mall	80,000	Daxing
Roosevelt Shopping Centre	67,000	Tongzhou
Wanda Plaza	100,000	Tongzhou
Inter Ikea Beijing Shopping Center	200,000	Daxing
Longfor Paradise Walk	270,000	Chaoyang
Fangshan Greenland Being Funny Shopping Mall	70,000	Fangshan
Hongkun Plaza Shopping Mall	140,000	Daxing

Source: Savills Research & Consultancy

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