

Briefing Retail sector

December 2014



Image: China World Mall, CBD, Chaoyang district

SUMMARY

Even as new supply enters the market, sustained demand in downtown areas has supported the increase of city-wide occupancy rates, which rose to a five-year high of 95.5%.

■ Retail sales increased 8.2% year-on-year (YoY) to RMB657.3 billion in the first three quarters of 2014.

■ Two shopping centres, Lippo Plaza BHG Mall and Roosevelt Shopping Centre, held their grand openings, adding 80,000 sq m and 67,000 sq m respectively to the market in the third quarter. Both projects recorded high occupancy rates upon opening.

■ Despite new supply, prime shopping mall city-wide occupancy rates increased by a further 0.6 percentage point (ppt) quarter-on-quarter (QoQ) to 95.5%. This is an increase of 3.9 ppt YoY and the highest occupancy rates seen in the past five years.

■ Beijing prime shopping mall first floor rents witnessed an increase, up 0.3% QoQ to RMB915.2 per sq m per month, representing a YoY growth of 2.0%, the slowest growth in the past four years.

■ Six projects are scheduled to enter the market in the fourth quarter of 2014, all of which are shopping centres, adding a total retail GFA of approximately 700,000 sq m.

■ City-wide occupancy rates are expected to witness a moderate decline due to vacant space within new projects. Overall rental growth is expected to slow further as landlords in non-prime markets continue to offer rental incentives to attract suitable retailers. Vacant rates in new projects are expected to

witness a moderate decline resulting from high vacant rates in new projects.

“Fast fashion and mid-end luxury brands continued their entry and expansion plans in an attempt to gain market share among the growing middle class, while improving brand awareness among local residents.” Joan Wang, Savills Research

➔ **Economic overview**

Overall retail sales increased 8.2% YoY to RMB657.3 billion in the first three quarters of 2014. Online retail sales displayed particularly aggressive growth, up 61% during the same period. Under the pressure of competition from both online sales and shopping centres, department stores continued to experience downward pressure on sales. According to the China National Commercial Information Center (CNCIC), data collected from a hundred large retailers saw department

retail sales decline 0.1%, while the growth rate fell 10.0 ppts compared with that witnessed last year. Meanwhile, urban disposable incomes per capita grew 9.1% YoY by the end of September, with expenditure per capita registering growth of 7.2% YoY over the same period. Beijing's consumer confidence index fell to 105 in the second quarter of 2014.

Supply and stock

The market distribution pattern continued to change as new supply

was recorded in non-prime and even suburban areas. Two shopping centres, Lippo Plaza BHG Mall (力宝广场华联购物中心) and Roosevelt Shopping Centre (京通罗斯福购物中心), held their grand openings and recorded high occupancy rates in the third quarter, adding a total retail GFA of 147,000,000 sq m to the market.

Lippo Plaza BHG Mall (力宝广场华联购物中心)

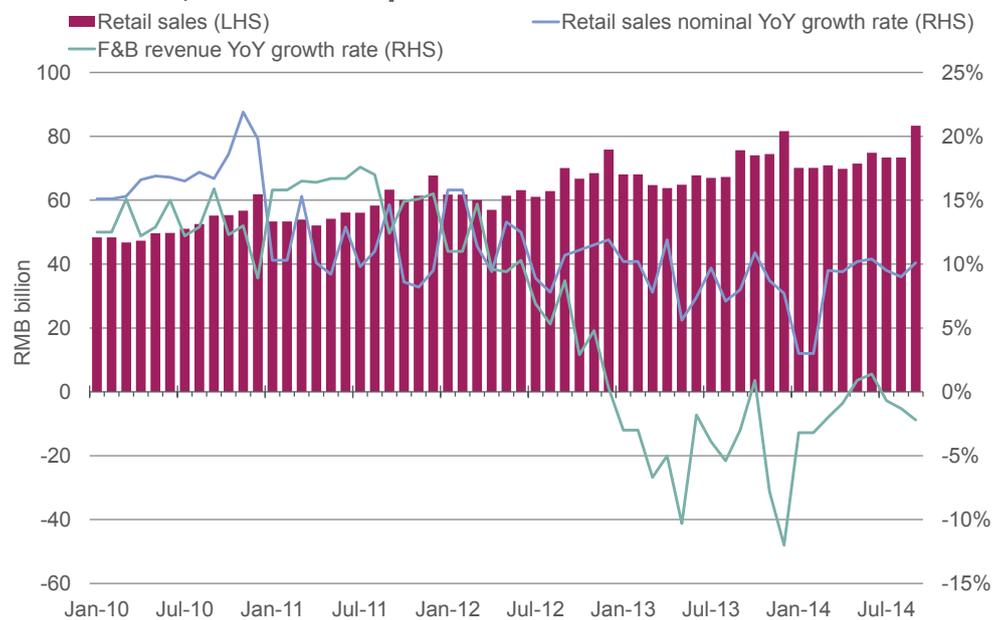
Lippo Plaza BHG Mall (力宝广场华联购物中心), located in Beijing Development Area (BDA), Daxing district, is the retail component of Lippo Plaza which also consists of office and residential components. Launched by BHG Co., Ltd (北京华联集团) this July, the project is positioned as a shopping mall. The project offers a retail GFA of 80,000 sq m, and has shown strong performance with a high occupancy rate of 90% already achieved. The project hosts a diverse tenant mix with approximately 160 brands, including fast fashion, jewellery and F&B. This project is the first mid- to high-end shopping centre project to enter the BDA area. As the area is currently characterised by a strong presence of offices and growing residential communities, it is expected this project will attract high footfall and satisfy the demand from both white collar workers and local residents in the area.

Roosevelt Shopping Centre (京通罗斯福购物中心)

Roosevelt Shopping Centre (京通罗斯福购物中心), located in Tongzhou district, is positioned as a shopping mall in a complex also offering office components. Run by experienced operator ARA, the project held its soft opening on 10 September. ARA acquired Roosevelt Shopping Centre in 2012 and is expected to bring strong management and success to this project, due to its reputation of being responsible for one of the most mature projects in its category, the very successful Tianxing Roosevelt International Centre in Dalian. The retail component offers a GFA of 67,000 sq m, which has also achieved a high occupancy rate of over 85%. Introducing over 100 retailers with a tenant mix covering fast fashion, F&B and entertainment retailers, the project is well positioned to satisfy the demand from local residents, as it is the first project of its kind launched in the Tongzhou district.

GRAPH 1

Retail sales, Jan 2010–Sep 2014



Source: Beijing Statistics Bureau, Savills Research

TABLE 1

New Supply in Q3/2014

Project	Lippo Plaza BHG Mall (力宝广场华联购物中心)	Roosevelt Shopping Centre (京通罗斯福购物中心)
Location	Yizhuang area	Tongzhou District
Retail GFA (sq m)	80,000	67,000
Retail type	Shopping mall	Shopping mall
Opening date	31 July 2014	10 September 2014
Major tenants	H&M, I DO, Shanghai Min and Wangpin Beef Steak	Lotte Cinema, Baolei KTV, H&M C&A, South Beauty Restaurant and Donglaishun

Source: Source: Savills Research

Given the slowdown of the department store sector, landlords have been feeling the pressure. The landlord of the Dajiaoting centre, located near the Fourth East Ring Road, considered selling its project this quarter. As a result, Parkson chose to close its Dajiaoting store, its third store closure nationwide this year. Ito Yokada has also been cooling down its operations by closing its Wangjing store in Q2/2014 and its Chaoyang store in July, while the closure of its Xizhimen store is expected in the fourth closure. As a result, total mid- to high-end retail stock grew 100,000 sq m to 9.1 million sq m.

Demand and occupancy rates

F&B retailers witnessed the most active expansions in the third quarter, with landlords keen to introduce such retailers to increase footfall in the traditionally slow season. Typical leasing deals included the following:

- Dadong (大董), popular F&B brand, opened its first store in CBD in the China Central Mall (华贸中心).
- Xibei, Waipojia and Japanese food brand Many Musashi (面屋武藏) all opened new stores in Seasons Place (金融街购物中心) in Beijing Financial Street (BFS) area.
- Family Mart launched its first store in Beijing, located in the Beijing Capital International Airport T3. Now all three top convenient store brands, 711, Lawson and Family Mart, have a presence in the Beijing market.
- Ding Tai Tang (鼎泰堂) has committed to opening a store in Beijing APM located in the Wangfujing area.

Fast fashion and mid-end luxury brands continued their entry and expansion plans in an attempt to gain market share among the growing middle-class, while improving brand awareness among local residents. Deals of interest included the following:

- Uniqlo committed to its largest flagship store in Beijing, located in The Place in CBD area.
- 3.1 Phillip Lim, American fashion brand, launched a new store in Shin Kong Place in CBD area in July.
- H&M has committed to two stores in the recently launched Roosevelt Shopping Centre (京通罗斯福购物中心) and Lippo Plaza BHG Mall (力宝广场华联购物中心).
- MONKI, a subsidiary of H&M,

launched its new store in Joy City in Xidan area in July 2014.

- D2C, a fashion designer integration platform, opened its second store in Beijing in China World Trade Centre.
- Kenzo opened a new store in Taikoo Li (North) in Sanlitun area.

While the F&B, fast fashion and mid-end luxury brand sectors showed strength, the luxury retailer sector continued to show caution over expansion plans given the government's anti-corruption campaigns and a slowing national economy. This was reflected in very few luxury brands leasing new space in Q3/2014. A notable exception was Vera Wang, which committed to its third store in China in Taikoo Li (North) located in Sanlitun area.

Despite the new supply, prime shopping mall city-wide occupancy rates continued to increase by a further 0.6 of appt QoQ to 95.5%. This was up 3.9 ppts YoY, the highest occupancy rates seen in the past five years.

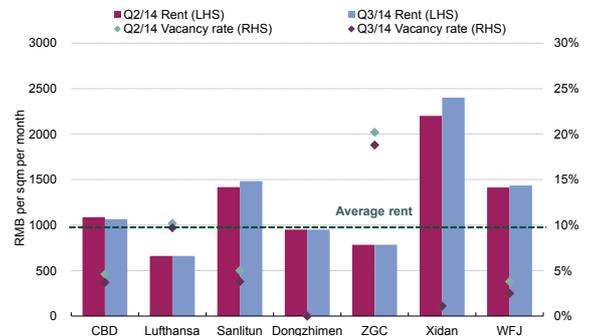
Prime retail projects located in core retail areas such as Wangfujing, Xidan and Sanlitun continued to place retailers on long waiting lists, with high occupancy rates of 97.5%, 98.9% and 96.2% respectively. In contrast, non-prime and suburban areas are struggling to improve tenant mixes even with the introduction of high-profile retailers.

TABLE 2
Project focus

Project	Longfor•Paradise Walk (龙湖•长楹天街)	Tongzhou Wanda Plaza (通州万达广场)
		
Location	Chaoyang District	Tongzhou District
Retail GFA (sq m)	270,000	100,000
Retail type	Shopping mall	Shopping mall
Opening date	Q4/2014	Q4/2014
Major tenants	Parkson, Yonghui Superstore, All-Star Skating Club and Lumiere Pavillion	Wanda Department Store, Wanda Cinema and Dagexing KTV

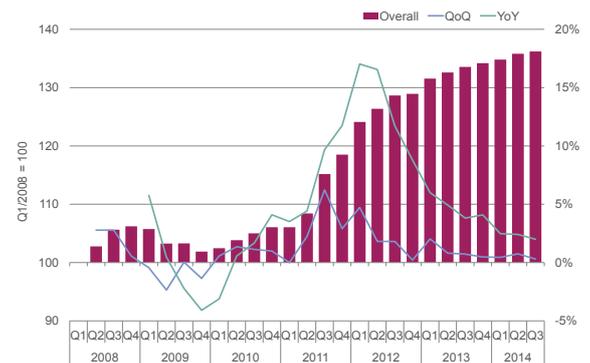
Source: Savills Research

GRAPH 2
Major retail area vacancy rates and rents, Q2/2014 vs Q3/2014



Source: Savills Research

GRAPH 3
First-floor shopping mall rental index, Q1/2008–Q3/2014



Source: Savills Research

Rents

With demand mainly stemming from F&B and lifestyle retailers with relatively low rental budgets, Beijing prime shopping mall first floor rents witnessed a decline in rent growth rates, up only 0.3% QoQ to RMB915.2 per sq m per month. This represented a YoY growth of 2.0%, the slowest in the past four years.

However, prime retail areas such as Xidan and Sanlitun continued to account for the highest rental growth rates, 9.1% and 6.3% respectively, mainly supported by a large number of international retailers.

Market outlook

Six projects are scheduled to debut in the fourth quarter of 2014, all positioned

to be shopping centres, adding a total retail GFA of approximately 700,000 sq m. With 84% of the new supply to be located in emerging areas such as Fengtai and Tongzhou districts, it is expected that this will alter the retail market distribution pattern, making it more decentralised.

Three of these projects to be launched are Longfor-Paradise Walk, Tongzhou Wanda Plaza and the Inter IKEA Beijing Shopping Center. All are positioned to be community shopping malls, looking to introduce a mix of fast fashion, F&B, entertainment and lifestyle brands to residents in non-prime locations. With Beijing's population continuing to grow, an increasing number of residents are locating themselves outside the Fourth Ring Road. As a result, there is a growing demand for one-stop

consumption in these areas, with new projects expected to meet consumer needs.

While the new projects are to be operated by experienced landlords and enjoy convenient access to metro lines, their non-prime locations and associated immature retail atmosphere are putting pressure on landlords to compromise on rents and offer other incentives to attract suitable tenants and healthy pre-commitment rates. As a result of this, city-wide occupancy rates and rental growth are expected to experience a moderate decline. ■

TABLE 3 Future projects, Q4/2014

Project	Retail GFA (sq m)	Location	Retail type
Longfor-Paradise Walk (龙湖·长楹天街)	55,000	Sanlitun	Shopping mall
Tongzhou Wanda Plaza (通州万达广场)	38,000	CBD	Shopping mall
Tun San Li Yong Li Mall (屯三里永利购物中心)	80,000	Others	Shopping mall
Xanadu Plaza (禧瑞汇)	160,000	Others	Shopping mall
Xanadu Plaza (禧瑞汇)	200,000	Others	Shopping mall

Source: Savills Research

Please contact us for further information

Savills Research



James Macdonald
 Director, China
 +8621 6391 6688
 james.macdonald@savills.com.cn

Savills Project & Development Consultancy



Joan Wang
 Director
 +8610 5925 2042
 joan.wang@savills.com.cn

Savills Retail



Anthony McQuade
 Senior Director
 +8610 5925 2002
 anthony.mcquade@savills.com.cn



Melissa Ong
 Director
 +8610 5925 2086
 melissa.ong@savills.com.cn

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