

Briefing Retail sector

January 2014



Image: The Place, CBD, Chaoyang district

SUMMARY

Retailers' appetites for prime locations pushed city-wide occupancy rates to five-year highs, although rental incentives offered in non-prime retail areas constrained rental growth to below 5% in 2013.

■ Retail sales real growth slowed to 8.8% year-on-year (YoY) during the first 11 months of 2013.

■ Two shopping centres debuted in Q4/2013, adding 226,000 sq m to the market and bringing total stock to 9.0 million sq m.

■ While first-tier luxury retailers remain cautious about opening new stores, second-tier luxury and designer labels accelerated their entrance into the market.

■ The city-wide mid- to high-end shopping mall vacancy rate fell by 2.2 percentage points (ppts) in Q4/2013

to 6.2%, the lowest level in five years, resulting from strong demand for prime retail areas.

■ Mid- to high-end shopping mall first-floor rents increased by 0.5% in Q4/2013 to an average of RMB905.8 per sq m per month, up 4.1% YoY.

■ Eleven projects are scheduled to open in 2014, adding 1.1 million sq m to the market and enlarging market stock by 12%.

■ The rental divergence between prime and non-prime locations is expected to grow in 2014, with non-prime area landlords offering rental discounts to

attract tenants while prime projects with waiting lists should continue to see rental appreciation.

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 "Luxury retailers remain conservative on new store openings, focusing more on maximising sales in existing stores via renovations and upgrading." Joan Wang, Savills Research

➔ **Economic overview**

Retail sales totalled RMB755.8 billion in the first 11 months of 2013, up 8.8% YoY (real growth). Urban disposable income per capita grew by 10.2% YoY over the same period, while expenditure per capita growth slowed to 9.1% YoY. Beijing's consumer confidence index increased to 105.5 in Q3/2013 from 103.4 in Q2/2013.

Supply

Only two mid- to high-end shopping centres, namely Aegean Sea Mall (爱琴海购物中心) and BBMG & Vanke Plaza (金隅万科广场), held grand openings in Q4/2013, adding 226,000 sq m to the market. Four other retail developments scheduled for completion in Q4/2013 were postponed to 2014. Also in the fourth quarter, the 210,000-sq m Dazhongsi International Business Plaza was repositioned to an office and retail podium after the closure of its anchor tenant, HQ Shangke Department Store (a subsidiary of Wangfujing Group). Beijing's mid- to high-end retail stock consequently grew to 9.0 million sq m, up just 5.0% YoY.

Aegean Sea Mall

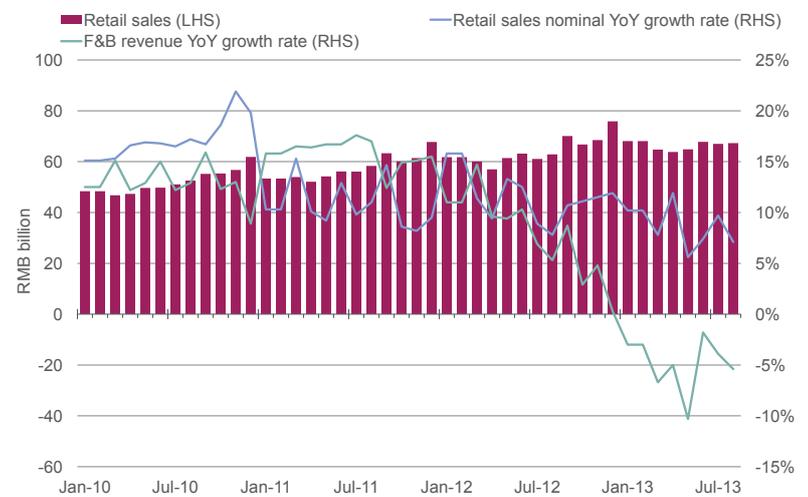
Aegean Sea Mall, the first traditional shopping mall by China Red Star Group, located in Taiyanggong area, opened on 26 October 2013. The 130,000-sq m project is anchored by Red Star Pacific Cinema, Windsor KTV and BravoYH supermarket. The mall has more than 60 F&B retailers, including The Grandma's, Diaoye Niunan, Diancaoxiang Hotpot and Xinladao, accounting for around 30% of tenants.

BBMG & Vanke Plaza

BBMG & Vanke Plaza, the first retail project by Vanke, opened on 24 December 2013. Located in Changping district, this 96,000-sq m project is positioned as a community mall. Anchor tenants include Capital Cinema, Vanguard supermarket and Geyouhui KTV. This project also introduced a series of fashion, F&B, children's, and home and lifestyle retailers, such as H&M, Uniqlo and Ochirly. The occupancy rate at handover was over 90%.

In addition to the aforementioned two new projects, Beijing Kerry Mall located in the CBD reopened in Q4/2013 after carrying out renovation works over the last two years. The

GRAPH 1 **Retail sales, Jan 2010–Nov 2013**



Source: Beijing Statistics Bureau, Savills Research

TABLE 1 **New projects, Q4/2013**

Project	Retail GFA (sq m)	Retail area	Retail type
Aegean Sea Mall	130,000	Lufthansa	Shopping mall
BBMG & Vanke Plaza	96,000	Changping	Shopping mall

Source: Savills Research

reinvigorated mall attracted a number of F&B retailers such as Starbucks' two-storey flagship store, Bellagio, Wagas and Element Fresh, and fashion brands including J. Lindeberg and Cesare di Pino.

Demand and occupancy rates

Luxury retailers remain conservative on new store openings, focusing more on maximising sales in existing stores via renovations and upgrading. Louis Vuitton renovated and reopened its 2,000-sq m boutique store in Peninsula Mall in Wangfujing and is upgrading its 3,000-sq m store in China World Mall located in the CBD, while Cartier and Dolce & Gabbana are upgrading their boutique stores in Lotte Yintai Department Store and Seasons Place respectively.

Second-tier luxury brands and designer labels continued their entry and expansion in an attempt to gain market share from the ever growing number of high net worth individuals,

with mature projects in core retail areas as their main priority. Key leasing deals include:

- Tom Ford opened a new store in Shin Kong Place and committed to another store in Yintai Centre – Park Life Shopping Centre.
- Michael Kors launched a 160-sq m boutique store in Taikoo Li Sanlitun following another one at Shin Kong Place.
- Phillip Lim debuted in mainland China by committing to a store in Tai Koo Li Sanlitun.
- I.T. launched its 2,000-sq m flagship store in Parkview Green.
- Longchamp opened its third store in Beijing in Galeries Lafayette.
- MCM opened a new 250-sq m store in Yintai Centre – Park Life Shopping Centre.

Several projects also upgraded their tenant mixes in an attempt to drive footfall leading up to the festive shopping period. H&M opened a 1,500-sq m store in The Palace, replacing MontBell, and another 1,100-sq m store in Beijing APM replacing Nike's first Chinese flagship store. SOLANA, located in Lufthansa, introduced the first Chinese store of Ticket Outdoor, a Danish children's clothing brand.

Stable demand supported growing occupancy rates in mature retail areas, with CBD, Sanlitun and Xidan vacancy rates in Q4/2013 falling by 3.5, 1.6 and 0.5 ppts respectively. Secondary retail areas, such as Gongzhufen and Zhongguancun, recorded a slight fall in occupancy rates as Cuiwei Mall and ZGC Plaza Shopping Centre underwent tenant mix adjustments. The prime shopping mall city-wide occupancy rate consequently increased by 2.2 ppts in Q4/2013 to 93.8%, up 3.8 ppts YoY.

Rents

Mid- to high-end shopping mall first-floor rents increased by 0.5% quarter-on-quarter to RMB905.8 per sq m per month, up 4.1% YoY. Slower growth resulted from increasing competition in non-prime locations which have received significant supply in recent years.

Despite this, prime retail areas, such as Xidan, Wangfujing and Sanlitun, recorded YoY growth in the range of 3.2% to 19.2%, as they remain the priority for overseas retailers, particularly new entrants. Average rents in these three submarkets stood at RMB2,000, RMB1,510 and RMB1,550 per sq m per month by the end of the year respectively – the highest rents in the city.

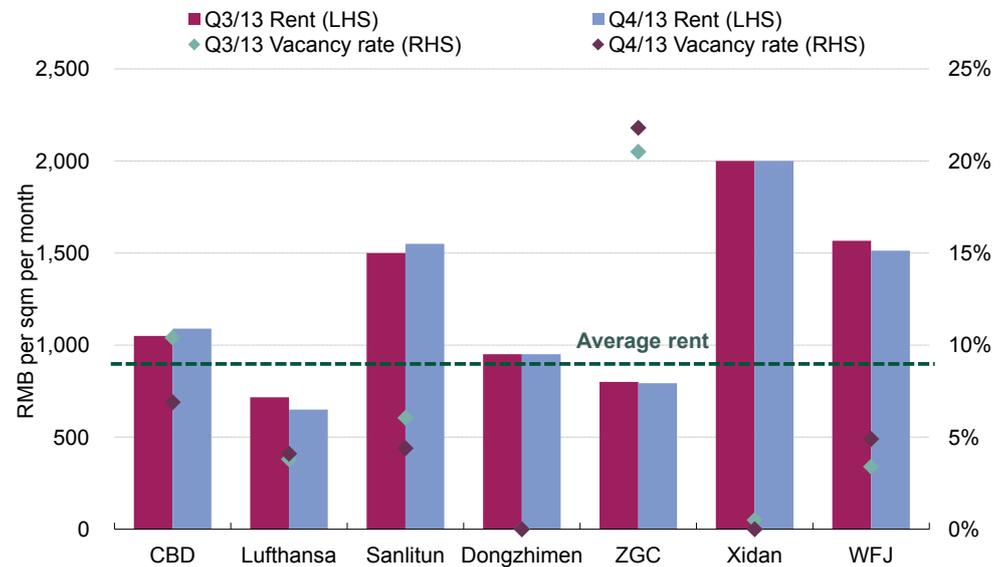
Market outlook

Eleven projects are scheduled to debut in 2014, adding 1.1 million sq m to the market and enlarging stock by 12%. Close to 70% of the new supply will be located in non-prime or suburban districts, fuelling competition in decentralised areas.

Given the substantial supply combined with weaker demand from luxury and fast-fashion retailers, landlords in non-prime locations, especially those of under-performing projects, will have to lower their rents or adjust

GRAPH 2

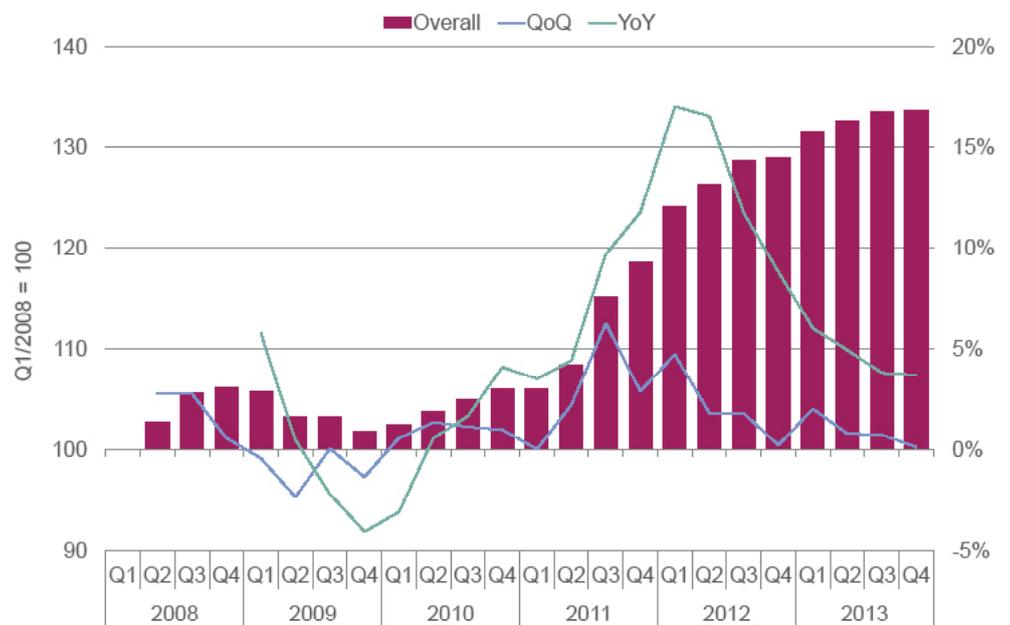
Major retail area vacancy rates and rents, Q3/2013 vs Q4/2013



Source: Savills Research
Note: WFJ = Wangfujing; ZGC = Zhongguancun

GRAPH 3

First-floor shopping mall rental index, Q1/2008–Q4/2013



Source: Savills Research

their positioning to generate increased footfall. In contrast, landlords in prime locations are expected to maintain their bargaining power, with long waiting lists of retailers eager to establish their market presence. While average rental rates for the city are

expected to remain relatively stable next year, a two-tier market will persist, with rents falling in non-prime locations and rising in prime locations. ■

TABLE 2
Future key projects, 2014

Project	Retail GFA (sq m)	Location	Retail type
BaoYuan International Shopping Centre 宝苑国际购物中心	160,000	Others	Shopping mall
Beijing Mall 新燕莎金街购物广场	46,000	Wangfujing	Department store
Xanadu Plaza 禧瑞汇	38,000	CBD	Shopping mall
Tun San Li Yong Li Mall 屯三里永利购物中心	55,000	Sanlitun	Shopping mall
Lippo Plaza BHG Mall 力宝广场华联购物中心	80,000	Others	Shopping mall
Topwin Project 通盈商业中心	45,000	Sanlitun	Shopping mall
Power Land Plaza 国海广场	63,000	Gongzhufen	Retail podium
Jinbao Place 金宝汇	12,000	Wangfujing	Shopping mall
FUNMIX FUNMIX半岛广场	130,000	Others	Shopping mall
Inter IKEA Beijing Shopping Center 英特宜家购物中心	200,000	Others	Shopping mall
Longfor Paradise Walk 龙湖·长楹天街	270,000	Others	Shopping mall

Source: Savills Research

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