

Briefing Retail sector

April 2014



Image: China World Mall, CBD, Chaoyang district

SUMMARY

City-wide vacancy rates continued to drop as no new supply was launched in Q1. However, prime shopping mall rental growth fell to a three-year low due to incentives offered by landlords in non-prime markets.

■ Retail sales totalled RMB140.2 billion in the first two months of 2014, with the year-on-year (YoY) real growth rate down to a five-year low of 3.0%.

■ No new mid- to high-end retail projects were launched in Q1/2014, leaving total stock unchanged at 9.0 million sq m. Several upcoming projects, however, have achieved high pre-commitment rates and are expected to debut in the next nine months.

■ Prime shopping mall city-wide occupancy rates increased by a further 0.2 of a percentage point (ppt) quarter-

on-quarter (QoQ) in Q1/2014 to 94.0%, up 2.5 ppts YoY.

■ Mid- to high-end shopping mall first-floor rents appreciated by just 0.5% QoQ to RMB913.7 per sq m per month, up 2.5% YoY, the slowest growth since 2011.

■ The market is expected to welcome a third historical peak in 2014, with ten projects scheduled for grand opening bringing a total retail GFA of 928,000 sq m and enlarging stock by 10% by the end of 2014. Eighty-four percent of the new supply will be located in non-prime and suburban markets.

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 “Several landlords in prime retail areas are planning tenant mix adjustments in the next six months in order to differentiate themselves from competitors and reduce the impact of online shopping by introducing more new entrants and lifestyle retailers.” Joan Wang, Savills Research

➔ **Economic overview**

Retail sales totalled RMB140.2 billion in the first two months of 2014, with the YoY real growth rate slowing to a five-year low of 3.0%. Urban disposable incomes per capita had grown by 10.6% YoY by the end of December 2013, while expenditure per capita registered a growth of 9.3% YoY over the same period. Beijing's consumer confidence index decreased to 104.6 in Q4/2013 from 105.5 in Q3/2013.

Supply

Most retail projects with relatively high pre-commitment rates debuted before Christmas to capture the market share during the traditional peak season of Christmas Day, New Year's Day as well as Chinese New Year. As a result, no new mid- to high-end retail projects were launched in Q1/2014, leaving Beijing's mid- to high-end retail stock unchanged at 9.0 million sq m.

However, several projects have achieved high pre-leasing rates and are expected to debut in the coming nine months. Upcoming projects include:

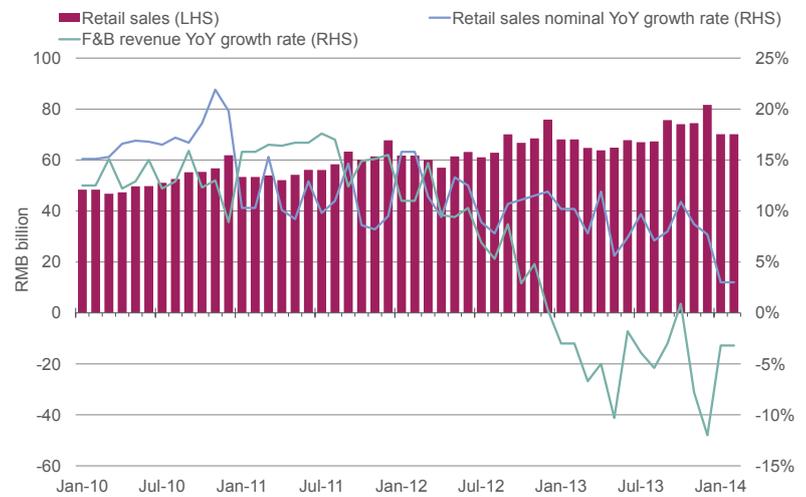
Xanadu Plaza

Located in the CBD area, Xanadu Plaza (禧瑞汇), operated by Yangguangxinye Real Estate Co, Ltd (阳光新业地产股份有限公司), will be positioned as a boutique shopping mall. With a retail GFA of 37,800 sq m, this project has almost achieved full occupancy by introducing a series of secondary luxury, fashion, watch and jewellery, lifestyle, F&B, children's and services retailers such as a.testoni, Bliorks, Belencre (字里行间), Hua's Restaurant (花家怡园), Umassif (原麦山丘), Starbucks, Costa Coffee, Lenscrafters (亮视点) and BHG supermarket.

Inter IKEA Beijing Shopping Centre

With a total retail GFA of 200,000 sq m, Beijing Shopping Centre will be located in Daxing district, a suburban area, and will be the second shopping centre nationwide by the Inter IKEA Group. Its anchor tenants include the 50,811-sq m IKEA (which opened in November 2013), Auchan hypermarket, Suning Appliance and Jinyi International Cinema. By the end of Q1/2014, this project had achieved a high pre-commitment rate of nearly 70%.

GRAPH 1 **Retail sales, Jan 2010–Feb 2014**



Source: Beijing Statistics Bureau, Savills Research

Demand and occupancy rates

Government anti-corruption campaigns and a slowing national economy meant that many luxury retailers witnessed slowing sales in 2013 (revealed by Bain, 17 December, 2013). As a result, in Q1/2014, these luxury retailers continued to be conservative on new store expansions, choosing instead to focus on upgrading and renovating their current stores. For instance, Prada reopened its 400-sq m double-storey flagship in Shin Kong Place after redecoration, and CERRUTI 1881 reopened its flagship store in The Malls at Oriental Plaza.

Second-tier luxury brands and fast-fashion retailers continued their entry and expansion plans in an attempt to gain market share from the growing number of high net worth individuals, with mature projects in core retail areas as their priority, including:

- Jimmy Choo has committed to its second Beijing store in Charter Shopping Centre located in Wukesong area.
- ARTE and Furla launched new stores in Season's Place located in Beijing's Financial Street area.
- I.T launched its largest store nationwide in Parkview Green with a leasing area of 2,000 sq m.
- H&M has committed to two new stores in Taikoo li located in Sanlitun

area and Roosevelt located in Tongzhou district respectively.

Meanwhile, F&B and children's retailers continued to accelerate their expansions in the locality as many landlords were eager to introduce such retailers to attract footfall.

Popular Japanese food brands Genki Sushi (元气寿司) and IPPUDO (一风堂) launched their stores in Beijing Kerry Mall. Meanwhile, Element Fresh and Haagen-Dazs have committed to new stores in The Galleria and The Malls at Oriental Plaza respectively.

Several projects continued to introduce retailers specialising in children's education and recreation. Additionally, some high-end projects introduced luxury children's brands in order to meet growing demand. Dior, Dolce & Gabbana, Ralph Lauren, Bonpoint and Armani Junior all launched their children's stores in the Yintai Centre – Park Life Shopping Centre.

Stable demand combined with a lack of new supply allowed prime shopping mall city-wide occupancy rates to increase by a further 0.2 of a ppt QoQ in Q1/2014 to 94.0%, up 2.5 ppts YoY. Prime retail catchments such as WFJ, Xidan, Sanlitun and the CBD continued to boast high occupancy rates ranging from 93.9% to 100.0% as they are still the priority locations for many retailers from the secondary luxury, fashion, watch and jewellery, and boutique F&B sectors.

Rents

Despite positive occupancy rates supported by stable demand, mid- to high-end shopping mall first-floor rents appreciated by just 0.5% QoQ to RMB913.7 per sq m per month, representing a YoY growth of 2.5%, the slowest since 2011. On one hand, landlords of projects located in non-prime markets have to maintain the same rental rates or even offer discounts to attract suitable tenants. On the other hand, many landlords were eager to introduce F&B, children's, lifestyle and entertainment retailers (which usually have weaker affordability compared with luxury, fashion, and watch and jewellery retailers) to attract higher footfall, constraining overall rental growth as a result.

Nevertheless, prime retail areas, such as Xidan, WFJ and Sanlitun, recorded YoY growth ranging from 7.2% to 16.7%, as they remain the priority for the majority of international and leading domestic retailers, particularly new entrants. Average rents in these three submarkets stood at RMB2,100, RMB1,550 and RMB1,650 per sq m per month respectively by the end of Q1/2014, the highest in the city.

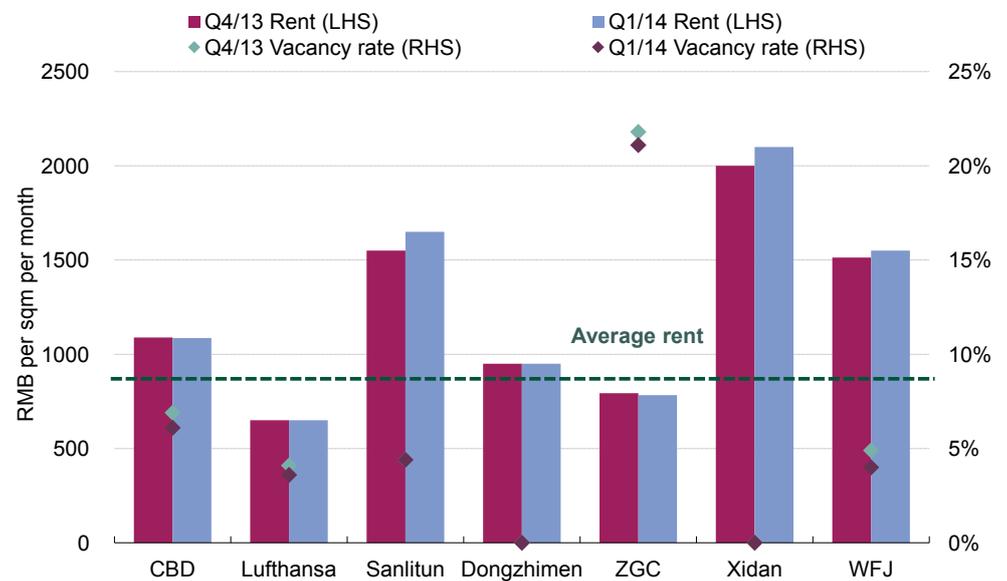
Market outlook

Beijing's mid- to high-end retail market is expected to witness a third historical peak in 2014, with ten projects scheduled for launch adding a total retail GFA of 928,000 sq m and enlarging total stock by 10% by the end of 2014. Eighty-four percent of the new supply will be located in non-prime retail areas such as Fengtai district and suburban areas including Tongzhou, Fangshan and Daxing. Despite this substantial level of new supply, city-wide occupancy rates are expected to largely stabilise, as most of the projects are anticipated to achieve healthy pre-leasing rates. Overall demand is expected to remain stable as Beijing is still one of the priority markets for many new entrants needing to establish their presence.

Overall rental growth, however, is predicted to be further constrained as most landlords of projects located in non-prime and suburban markets have to offer rental discounts to attract suitable retailers, particularly fashion, accessories, watch and jewellery, and lifestyle retailers, and secure high occupancies.

GRAPH 2

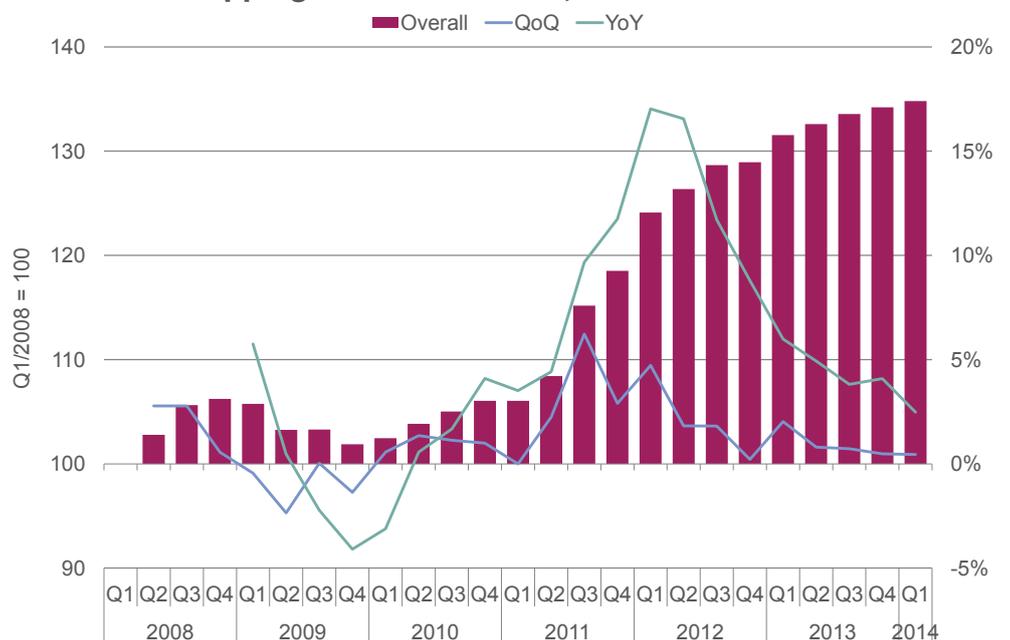
Major retail area vacancy rates and rents, Q4/2013 vs Q1/2014



Source: Savills Research
WFJ = Wangfujing; ZGC = Zhongguancun

GRAPH 3

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



Source: Savills Research

Given the growing demand from the secondary luxury, jewellery, lifestyle and boutique F&B sectors combined with limited supply and long waiting lists being seen in several prime projects, rents in prime retail areas are expected to maintain stable growth of 5% to 10% in 2014. Additionally, several landlords located in prime

retail areas, such as Joy City – Xidan and U-Town, are planning tenant mix adjustments in the coming six months in order to differentiate themselves from competitors and reduce the impact of online shopping by introducing more new entrants and lifestyle retailers. ■

TABLE 2
Future projects, Q2–Q4/2014

Project	Retail GFA (sq m)	Location	Retail type
Xanadu Plaza 禧瑞汇	38,000	CBD	Shopping mall
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	WFJ	Department store
Tun San Li Yong Li Mall 屯三里永利购物中心	55,000	Sanlitun	Shopping mall
Jinbao Place II 金宝汇二期	12,000	WFJ	Shopping mall
Hexie Plaza 北京和谐广场	140,000	Others	Shopping mall
Inter Ikea Beijing Shopping Center 英特宜家购物中心	200,000	Others	Shopping mall
Lippo Plaza BHG Mall 力宝广场华联购物中心	80,000	Others	Shopping mall
FUNMIX Funmix 半岛广场	130,000	Others	Shopping mall
Roosevelt 京通罗斯福购物中心	67,000	Others	Shopping mall

Source: Savills Research

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