

Briefing Retail sector

January 2015



Image: Parkview Green, CBD, Chaoyang district

SUMMARY

The Beijing retail market witnessed further decentralisation as five sizable shopping malls located in non-prime areas debuted this quarter.

- Retail sales increased 8.6% year-on-year (YoY) to RMB820.7 billion in the first eleven months of 2014.
- Five shopping centres held their grand openings, adding a total retail GFA of 780,000 sq m to the market in the fourth quarter. This brings the number of projects launched in 2014 to eight, with a total retail GFA of 973,000 sq m. Total mid-to high-end retail stock increased to around 10.0 million sq m.
- Despite a large amount of new supply, prime shopping mall city-wide occupancy rates decreased 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 95.1%, up 1.3 ppts YoY.
- Beijing prime shopping mall first floor rents witnessed an increase of 0.6% QoQ to RMB902.6 per sq m per month, up 2.0% YoY.
- The market is expected to witness a further influx of supply in 2015, as eleven projects are scheduled to enter the market. The majority of these are positioned as shopping centres, adding a total retail GFA of approximately 1.0 million sq m.

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 “Despite high occupancy rates in most projects, landlords of projects located in non-prime areas had to compromise on rents to attract suitable tenants, restraining overall rental growth as a result.” Joan Wang, Savills Research

➔ Economic overview

Overall retail sales increased 8.6% YoY to RMB820.7 billion in the first eleven months of 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% YoY, by the end of November, with expenditure per capita registering growth of 6.4% YoY over the same period.

Market news

1. Wanda raises \$3.7 billion, price IPO near top of range

Chinese real estate developer Dalian Wanda Commercial Properties Co. Ltd. (Wanda) has raised approximately \$3.7 billion (£2.36 billion) in Hong Kong's biggest initial public offering (IPO) since 2010, capping a banner year for Asia listings buoyed by surges in Australia and mainland China. Currently, Wanda is one of the largest developers in

China in terms of number of projects, with 107 Wanda Plaza projects completed and around 40 under construction.

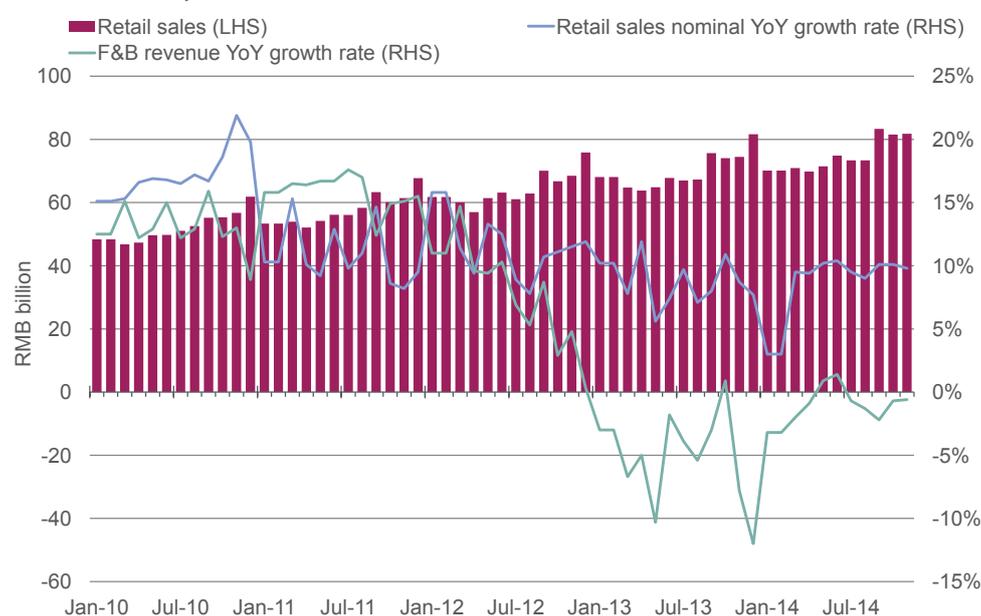
2. Beijing opens four new metro lines

Beijing began trial operations of four new metro lines on December 28, in an effort to ease the city's traffic jams. The newly-opened lines include the second phase of Line 6, Line 7, the eastern section of Line 14 and the western section of the current Line 15, increasing Beijing's total metro length to 527 km. These new metro lines have helped to further improve the accessibility of Beijing's southern area and several retail areas – such as Wangjing & Jiuxianqiao – are currently witnessing upgrades.

3. Alipay launches e-pass programme with four American retailers

Alipay, Alibaba's third-party payment platform, recently launched their ePass programme working with four major high-end American retailers – Macy's (梅西), Bloomingdale's (博洛茗), Saks Fifth Avenue (萨克斯第五大道) and Neiman-Marcus (尼曼) – well-known brands which have diverse merchandise. The cooperation between on-line shopping platforms and overseas retailers (particularly

GRAPH 1
Retail sales, Jan 2010–Nov 2014



Source: Beijing Statistics Bureau, Savills Research

TABLE 1
New Supply in Q4/2014

Project	Tongzhou Wanda Plaza (通州万达广场)	LIVAT Xihongmen Shopping Centre (荟聚-西红门购物中心)	Longfor Paradise Walk (龙湖·长楹天街)	Fangshan Greenland Being Funny Shopping Mall (房山绿地缤纷城)	Hongkun Plaza Shopping Mall (鸿坤广场购物中心)
					
Location	Tongzhou District	Daxing District	Chaoyang District	Fangshan District	Daxing District
Retail GFA (sq m)	100,000	200,000	270,000	70,000	140,000
Retail type	Shopping mall	Shopping mall	Shopping mall	Shopping mall	Shopping mall
Opening date	December 2014	December 2014	December 2014	December 2014	December 2014
Major tenants	Wanda Department Store, Wanda Cinema and Dagexing KTV	Auchan hypermarket, Suning Appliance and Jinyi International Cinema	Parkson, Yonghui Superstore, All-Star Skating Club and Lumiere Pavilion	Shanghai International Cinema, LFT KTV	Yonghui supermarket and Jackie Chan Cinema

Source: Savills Research

some luxury brands) is expected to further influence sales in retail projects.

4. Wumart buys stake in B&Q China
Kingfisher, the UK-based home improvements retailer, said on December 22 that it had agreed to sell a 70% stake in its loss-making B&Q China business to Wumart Holdings Inc. for around RMB1.4 billion (US\$225 million), a move that is expected to boost Wumart's retail presence. Echoing a series of store closures of Parkson, Ito Yokado and Wal-Mart in 2014, and OBI and Home Depot's exits from the China market in previous years, this acquisition reflects overseas retailers having fewer stores and relatively weaker adaptation in China.

5. Universal theme park set for Beijing
The government officially approved a Universal Studios theme park in Beijing in October. The Beijing Universal theme park and its supporting facilities will occupy an 80,000.12 million sq m site located in Tongzhou district, with overall investment of more than RMB20 billion. This is expected to accelerate the maturity of Tongzhou's retail ambiance.

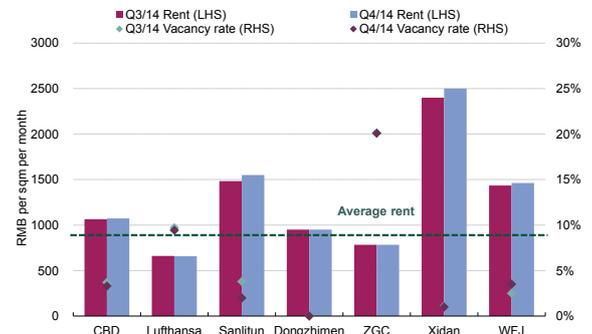
Supply and stock
In the fourth quarter, five shopping centres held their grand openings: Tongzhou Wanda Plaza (通州万达广场); Beijing LIVAT Xihongmen Shopping Centre (荟聚-西红门购物中心); Longfor Paradise Walk (龙湖·长楹天街); Fangshan Greenland Being Funny Shopping Mall (绿地缤纷城); and Hongkun Plaza Shopping Mall (鸿坤广场购物中心). These projects had a total retail GFA of 780,000 sq m and aimed to seize the traditional peak season between Christmas and Chinese New Year. As a result, eight projects with a total retail GFA of 973,000 sq m launched onto the market in 2014, the second historical supply peak witnessed over the past decade, enlarging total mid- to high-end retail stock to 10.0 million sq m. Given all the five new projects were located in non-prime areas outside the Fourth Ring Road, the Beijing retail market witnessed further decentralisation.

Tongzhou Wanda Plaza (通州万达广场)
Developed by Wanda Group, Tongzhou Wanda Plaza (通州万达广场) is the retail component in a mixed use project – Wanda Plaza comprises office, retail and residential components and is the second mid- to high-end retail project in Tongzhou, following Roosevelt Shopping Centre (京通罗斯福购物中心). With a retail GFA of 100,000 sq m, this project introduced anchor tenants including Wanda department store, Wanda Cinema, Dagexing KTV, Yonghui supermarket and Wanda Baby Playground, as well as over 200 other retailers, with around 90% of the brands debuting in the Tongzhou market.

LIVAT Xihongmen Shopping Centre (荟聚-西红门购物中心)
Beijing LIVAT Xihongmen Shopping Centre (荟聚-西红门购物中心) is located in the suburban Xihongmen area of the Daxing district and is directly connected by Metro line 4. As the first shopping centre project in North China launched by Inter IKEA Centre Group, and boasting a total retail GFA of 200,000 sq m, this project has achieved a high pre-commitment rate of almost 98% by introducing around 330 retailers, with anchor tenants including the 51,000sq m IKEA (opened in 2013), Auchan hypermarket, Suning Appliance and Jinyi International Cinema. It is the second store of Inter IKEA Centre Group in China following LIVAT Wuxi Shopping Centre, with another store in Wuhan expected to open in 2015.

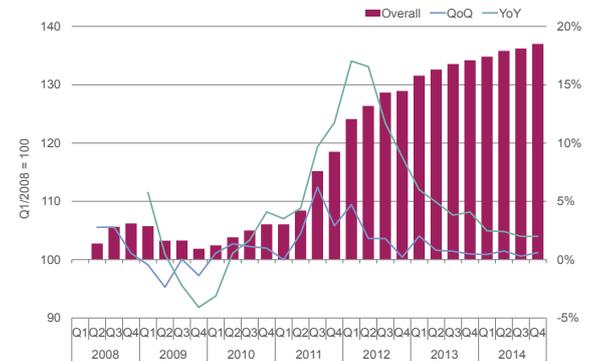
Hongkun Plaza Shopping Mall (鸿坤广场购物中心)
Near the LIVAT Xihongmen Shopping Centre, Hongkun Plaza Shopping Mall (鸿坤广场购物中心) opened with a total GFA of 140,000 sq m. The project was able to achieve an occupancy rate of nearly 90% by introducing a series of mid-end fashion brands, child-related retailers and F&B retailers in order to remain competitive with LIVAT Xihongmen Shopping Centre. Compared with the larger pool of consumers for LIVAT Xihongmen Shopping Centre, the

GRAPH 2 Major retail area vacancy rates and rents, Q3/2014 vs Q4/2014



Source: Savills Research

GRAPH 3 First-floor shopping mall rental index, Q1/2008–Q4/2014



Source: Savills Research

project is expected to fulfil the demand of local residents, supported by the relationship with local residential projects such as Hongkun Ideal Park (鸿坤理想城).

Longfor Paradise Walk (龙湖·长楹天街)
Longfor Paradise Walk (龙湖·长楹天街) was the second mid-to high-end retail development in the Changying area of the Chaoyang district. Despite a substantial retail GFA of 270,000 sq m, making it the third largest shopping mall project in Beijing, this project has achieved a high pre-commitment rate of over 90%, with anchor tenants including Parkson department store, Yonghui Superstore, All-star skating club and Lumiere Pavilion cinema. Additionally, Longfor Paradise also introduced more than 180 fashion and accessory retailers, combined with committing approximately 60,000 sq m (in GFA or around 30,000 sq m in NLA) for F&B retailers. It was the first

“Walk” project developed by Longfor Properties in Beijing, with the second one, Longfor Time Walk located in the Daxing district, scheduled to be opened in 2015.

Fangshan Greenland Being Funny Shopping Mall (房山绿地缤纷城)

Located in the Fangshan district, Greenland Being Funny Shopping Mall has a retail GFA of 70,000 sq m. This project is the second one-stop shopping mall by the Greenland Group in Beijing, with 45% of introduced brands debuting in the Fangshan market.

Demand and occupancy rates

F&B retailers continued active expansions in the fourth quarter, with most landlords willing to introduce them to entice higher footfall. Major leasing deals included:

- Pacific Coffee opened its 45th store in Beijing in Qianmen Project (前门大街).

- Caffè Pascucci, an Italian coffeehouse chain, launched its first airport outlet in China in Surprise Outlets near Beijing Capital International Airport.

- F&B brand Nongtangli committed to its first store in Beijing in Beijing Mall (新燕莎金街购物中心).

Meanwhile, fast-fashion and mid-end luxury brands continued their entry and expansion plans to gain market share among the growing middleclass. In particular, leading specialty stores (买手店) showed a greater appetite for the local market, benefitting from a growing brand-awareness among local consumers. Deals of interest include:

- Forever21 committed to its second store in Beijing in the new project LIVAT Xihongmen Shopping Centre, and Old Navy debuted in Beijing by launching a new store in the same project.

- Max Mara has committed to its new store in Parkview Green (侨福芳草地).

- Coach committed to its new store in China World Shopping Mall (国贸商城).

- Diane Von Furstenberg (DVF) opened its fourth store in Beijing in Seasons Place (金融街购物中心).

- ETRO opened two new stores in Charter Shopping Centre Beijing (卓展购物中心) and SKP (新光天地), previously known as Shin Kong Place.

Although luxury retailers continued to be rather cautious about expansion plans (given the ongoing government's anti-corruption campaigns and a slowing national economy), they continue to show interest in launching new stores in prime projects in core locations such as the CBD, Wangfujing and Sanlitun, as evidenced by the following cases:

- The fourth floor of SKP reopened after its renovation, introducing retailers including Jimmy Choo, Salvatore Ferragamo, Agnona, Roger Vivier, and MiuMiu.

- Armani committed to a new store in China World Shopping Mall.

Despite a large amount of new supply, city-wide occupancy rates declined 0.4 ppt QoQ to 95.1%, representing a YoY growth of 1.3 ppts, backed by strong pre-commitment rates from new projects, as the majority of them were operated by experienced landlords with bountiful resources of retailers.

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

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 consequently continued to restrain overall rental growth. Beijing prime shopping mall first floor rents grew by 0.6% QoQ to RMB902.6 per sq m per month,

representing a YoY growth of 2.0%, the slowest pace since 2010.

Nevertheless, supported by a large number of international retailers with relatively high rental budgets, prime retail areas such as Xidan Sanlitun and Wangfujing recorded YoY rental growth of 25%, 19% and 8.3%, respectively.

Market 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. A lack of available supply in core areas will 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.

While most new projects will continue to be operated by experienced landlords and benefit from connectivity by metro lines, landlords of projects in non-prime locations and with an immature retail ambience are expected to compromise on rents and offer other incentives to attract suitable tenants and healthy pre-commitment rates. As a result, it is expected overall rental growth will continue to further slow in the coming year.

While projects in prime locations will continue to have 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 result in city-wide occupancy rates experiencing a moderate decline. ■

TABLE 2

Future projects, 2015

Project	Opening date	Retail GFA (sq m)	Location	Retail type
Jinbao Place II (金宝汇二期)	Q1	12,000	Wangfujing	Shopping Mall
Xanadu Plaza (禧瑞汇)	Q1	37,800	CBD	Shopping Mall
Hualian Shopping Centre (Datun) (北京华联大屯购物中心)	Q3	79,000	Others-Datun	Shopping mall
Hualian Shopping Centre (Pinggu) (北京华联平谷购物中心)	Q3	59,000	Others-Pinggu	Shopping mall
Topwin Centre (通盈商业中心)	Q4	45,000	Sanlitun	Shopping Mall
Power Land Retail Portion (国海广场)	Q4	63,000	Gongzhufen	Retail Podium
Zhuzong Vanke Plaza (住总万科广场)	Q4	61,000	Others-Daxing	Shopping Mall
Longfor Time Walk (龙湖时代天街)	Q4	300,000	Others-Daxing	Shopping Mall
Beijing Harmony Square (北京和谐广场)	Q4	140,000	Others-Fengtai	Shopping Mall
FUNMIX (Funmix半岛广场)	Q4	130,000	Others-Fangshan	Shopping mall
BaoYuan International Shopping Centre (宝苑国际购物中心)	Q4	160,000	Others-Daxing	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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