

# Briefing Retail sector

April 2015



Image: Taikooli Sanlitun, Sanlitun, Chaoyang district

## SUMMARY

Pressure on landlords to offer rental discounts in favour of a healthy tenant mix has constrained overall rental growth. Beijing prime shopping mall first-floor rents witnessed an increase of 0.4% this quarter to RMB905.8 per sq m per month.

- Retail sales increased 7.8% year-on-year (YoY) to RMB160.1 billion in the first two months of 2015, while online retail sales surged by 62% in the same period.

- There was only one new entrant to the market in Q1/2015. This was the second phase of Jinbao Place located in the Wangfujing area, adding 12,000 sq m of retail GFA and increasing overall stock to around 10.0 million sq m.

- Limited new supply this quarter saw prime shopping mall city-wide

occupancy rates increase 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 95.5%, up 1.5% ppts YoY.

- Prime shopping mall first-floor rents witnessed an increase of 0.4% QoQ to RMB905.8 per sq m per month, down 0.9% YoY.

- Three projects are scheduled to launch onto the market in the second quarter of 2015, all of which are positioned as shopping malls, adding a total retail GFA of approximately 175,000 sq m.

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 “A slowing national economy, coupled with the Government's anti-graft campaign, saw luxury retailers continue to be cautious in terms of expansion plans.”  
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Joan Wang, Savills Research  
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➔ **Economic overview**

Retail sales totalled RMB160.1 billion in the first two months of 2015, representing a 7.8% YoY growth. Meanwhile, online retail sales continued to display strong growth, surging 62% YoY in the same period. Urban disposable incomes per capita grew 8.9% YoY by the end of 2014, while expenditure per capita registered growth of 6.6% YoY.

**Supply and stock**

The first quarter of 2015 was relatively inactive in terms of new supply, largely a result of the traditionally slow season as many projects chose to debut before Christmas to capture the market share associated with the peak season of Christmas Day, New Year's Day and Chinese New Year. There was only one new entrant to the market, which was the second phase of a pre-existing project. Jinbao Place Phase II, located in the Wangfujing area, launched onto the market, adding 12,000 sq m of retail GFA and increasing overall stock to around 10.0 million sq m. High pre-commitment rates have seen the project already achieve an occupancy rate of over 90%.

Three projects are scheduled to launch onto the market in Q2/2015, all of which are positioned as shopping

malls, adding a total retail GFA of approximately 175,000 sq m. The supply is to be distributed within both prime and non-prime areas. Xanadu Plaza (禧瑞汇) is located in the CBD area and is positioned as a boutique shopping mall. Developed by YangGuang Real Estate Company (阳光新业地产股份有限公司), the project will offer a retail GFA of 37,800 sq m. The project has almost achieved full occupancy with a tenant mix covering categories such as affordable luxury, fashion, watch and jewellery, lifestyle, F&B, children's and service retailers. Hualian Shopping Centre (北京华联购物中心) will be targeting two non-prime locations, launching shopping malls to service the communities of the Datun and Pinggu districts. The projects will see 79,000 sq m and 59,000 sq m of new retail GFA brought to Datun and Pinggu districts respectively.

**Demand and occupancy rates**

F&B retailers continued to accelerate their expansion plans across all districts of Beijing in Q1/2015. Landlords continued to offer them rental incentives as these retailers are known to attract footfall. This was the most active retailer category of the quarter and leasing deals included:  
- Grandma's Home (外婆家) opened a

new store in Seasons Place (金融街购物中心) in the BFS district.

- Meizhuo Dongpo (眉州东坡) continued their expansion in Beijing, launching a new store in the Hongkun Plaza Shopping Mall (鸿坤广场购物中心) in the Daxing district.

Fast-fashion and mid-end luxury brands continued their entry and expansion plans in an attempt to gain market share from the growing middle-class amid improving brand awareness from local residents. Leasing activities in the quarter included:

- Zara continued to expand its market share by launching a new store in the Inter IKEA Beijing Shopping Center.

- Michael Kors continued its expansion in Beijing, launching two news stores in the Wangfujing Department Store in the Wangfujing district and in Joy City in the Xidan district.

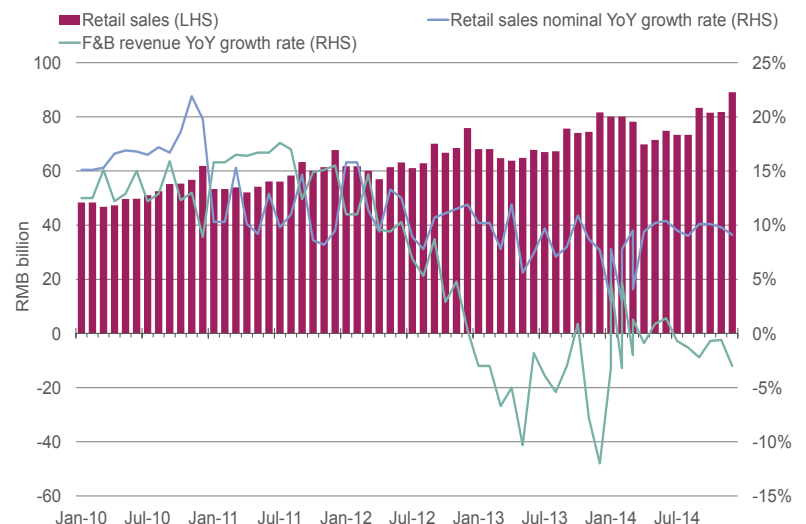
- Joyce, a leading fashion products retailer, recently closed its store in Shin Kong Place in the CBD. However, it committed to a new store in the Taikooli Sanlitun north zone. Meanwhile Vera Wang also opened its second store in China, the first in Beijing, in the same project.

TABLE 1 **New Supply in Q1/2015**

<b>Project</b>	Jinbao Place Phase II (金宝汇二期)
	
<b>Location</b>	Wangfujing
<b>Retail GFA (sq m)</b>	12,000
<b>Retail type</b>	Shopping mall
<b>Opening date</b>	Q1/2015
<b>Major tenants</b>	Dolce & Gabbana

Source: Source: Savills Research

GRAPH 1 **Retail sales, Jan 2010 – Mar 2015**



Source: Beijing Statistics Bureau, Savills Research

While the luxury retail market continues to suffer under the government's anti-graft campaign and a slowing national economy, retailers continued to show interest in established prime retail locations. Deals of interest include:

- The world's 22nd Louis Vuitton Maison officially opened in the China World Mall in the CBD. The flagship store reflects the significance of Beijing for the brand.

While there was new supply this quarter, it appeared inadequate to satisfy demand. As a result, city-wide occupancy rates increased 0.4 of a ppt QoQ to 95.5%, up 1.5% ppts YoY.

Prime retail projects located in core retail areas, such as Wangfujing, Xidan and Sanlitun, continued to receive long waiting lists from retailers, resulting in high occupancy rates of 97.1%, 97.0% and 98.4% respectively, On the other hand, non-prime and suburban areas are struggling to improve tenant mixes, as high-profile retailers continue to show limited interest.

### Rents

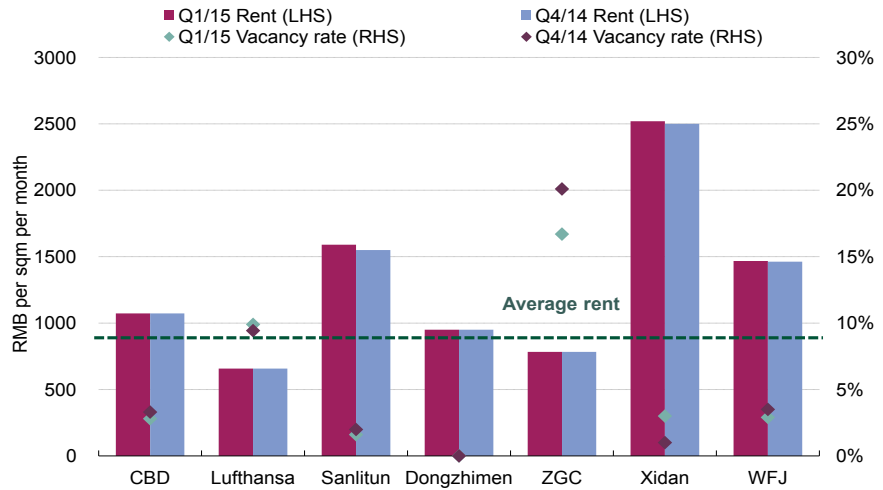
Currently, the majority of demand is currently stemming from F&B and lifestyle retailers with lower rental budgets. This, combined with relatively weak demand from luxury and fashion retailers, saw prime shopping mall first-floor rents continue to slow, rising only 0.4% QoQ to RMB905.8 per sq m per month, down 0.9% YoY.

However, prime retail areas such as Xidan and Sanlitun continued to show a strong performance, accounting for the highest rental growth rates, at 4.2% and 4.0% respectively, mainly driven by support from international retailers.

### Market outlook

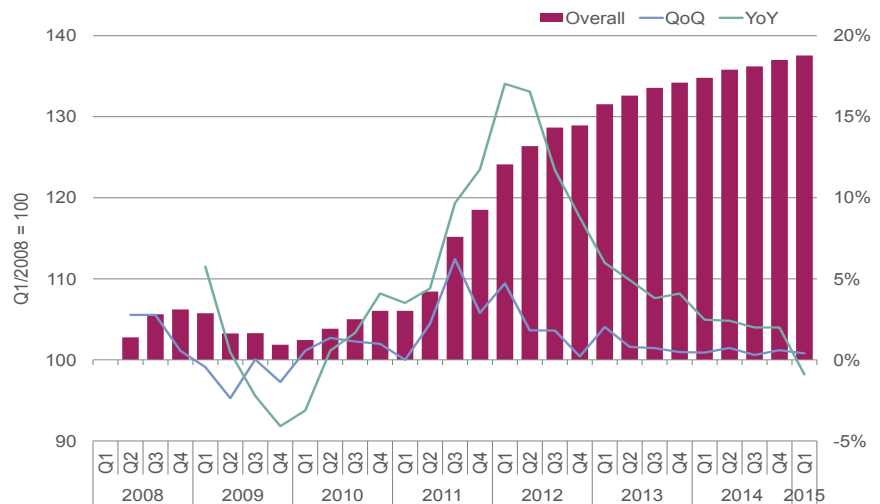
Three projects are scheduled to launch into the market in Q2/2015, all of which are positioned as shopping malls, adding a total retail GFA of approximately 175,000 sq m. The majority of this supply is to be located in non-prime locations, including

GRAPH 2 Major retail area vacancy rates and rents, Q4/2014 vs. Q1/2015



Source: Savills Research

GRAPH 3 First-floor shopping mall rental index, Q1/2008–Q1/2015



Source: Savills Research

the Pinggu and Datun districts, which is expected to further fuel the decentralisation trend in the market.

The remainder of 2015 is scheduled to see nine more projects launch onto the market, with a combined retail GFA of 935,000 sq m. This influx of supply is expected to be difficult to absorb by the market, particularly in non-prime areas, resulting in city-wide occupancy rates being expected to witness a moderate decline, largely as a result of vacant space in new projects.

While most new projects in non-

prime locations will be operated by experienced landlords and developing infrastructure will make them more conveniently accessible to the public, it is expected that retailers will be apprehensive to explore these areas. As a result, landlords will likely need to offer rental incentives to attract suitable tenants which will see overall rental growth continue to be constrained over the next nine months. ■

TABLE 2

**Future projects, Q2-Q4/2015**

Project	Opening date	Retail GFA (sq m)	Location	Retail type
Xanadu Plaza (禧瑞汇)	Q2	37,800	CBD	Shopping Mall
Hualian Shopping Centre (Datun) (北京华联大屯购物中心)	Q2	79,000	Others-Datun	Shopping mall
Hualian Shopping Centre (Pinggu) (北京华联平谷购物中心)	Q2	59,000	Others-Pinggu	Shopping mall
Topwin Centre (通盈商业中心)	Q4	45,000	Sanlitun	Shopping Mall
Power Land Plaza (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
BaoYuan International Shopping Center (宝苑国际购物中心)	Q4	160,000	Others-Fengtai	Shopping Mall
FUNMIX (Funmix半岛广场)	Q4	130,000	Others-Fangshan	Shopping mall

Source: Savills Research

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