

Briefing Retail sector

July 2015



Image: Parkview Green, CBD, Chaoyang district

SUMMARY

Beijing's city-wide shopping mall occupancy rates decreased to 94.4% in Q2/2015, largely as a result of an influx of supply combined with the brand adjustment strategies being undertaken by several existing malls.

■ Retail sales increased 6% year-on-year (YoY) to RMB479 billion in the first six months of 2015, the slowest growth witnessed over the past decade. However, online retail sales continued to post aggressive growth, registering 38.9% over the same period.

■ One new project entered the market this quarter, with FunMix Shopping Centre (半岛广场) in Fangshan district adding 130,000 sq m of retail GFA to the market. As a result, overall stock increased to over 10million sq m.

■ Given the new supply, Beijing shopping mall city-wide occupancy

rates decreased 1.1 percentage points (pts) QoQ to 94.4%, down 0.4% YoY.

■ Beijing shopping mall first-floor rents were down 0.7% QoQ to RMB902.4 per sq m per month, a growth of only 0.3% YoY.

■ The market is expected to witness a further influx of supply during the remainder of 2015, with eight projects contributing over 800,000 sq m of retail GFA to the market. Both city-wide rental growth and occupancy rates are expected to decrease as over 80% of supply is to be located in non-prime markets such as Daxing, Fengtai and Pinggu districts.

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 “Beijing shopping mall first-floor rents decreased 0.7% quarter-on-quarter (QoQ) to RMB902.4 per sq m per month by the end of Q2/2015, as landlords continued to offer rental discounts to attract suitable tenants to non-prime locations.” Jack Xiong, Savills Research

➔ **Economic overview**

Overall retail sales increased 6% YoY to RMB479 billion in the first six months of 2015, marking the slowest growth witnessed over the past decade. However, online retail sales continued to display particularly aggressive growth, up 38.9% during the same period. Meanwhile, urban disposable incomes per capita grew 8.3% YoY by the end of June 2015, with expenditure per capita registering growth of 7.4% YoY over the same period.

Supply and stock

One new project debuted in Q2/2015, FunMix Plaza located in the suburban Fangshan district, contributing 130,000 sq m of GFA to the market. As a result, Beijing's mid-to high-end retail stock expanded to over 10 million sq m, of which nearly 70% is comprised of shopping centres.

Non-prime markets have welcomed an influx of supply over the last few years, rapidly fuelling these areas development paths towards maturity. Currently there is more than two million sq m of retail GFA located outside the Fifth Ring Road area, of which approximately 60% has entered the market since 2012.

The Beijing Bureau of Statistics released a study on the distribution of the local residential population. The data revealed that 51% or 10.9 million local permanent residents reside outside of the Fifth Ring Road area. Echoing the trend of the rapid development of residential communities outside the Fifth Ring Road area, the Beijing retail market is also experiencing decentralisation. Rapidly developing transport networks, including the recent completion of subway Lines 4, 9, 6 and the Fangshan Line, are increasing accessibility to these areas and strongly driving the decentralisation trend. With developers looking to capture these highly populated residential markets, we will continue to see an increased amount of supply in the coming years in decentralised areas, such as Daxing, Fangshan and Tongzhou districts.

The latest project FunMix Plaza, is a clear indication of the increasing trend of experienced developers exploring decentralised markets for new opportunities. Eight new projects with a combined retail GFA of over 800,000 sq m are scheduled to launch onto the market during the remainder of 2015, with more than 80% of this to be located in non-prime and emerging areas.

Demand and occupancy rates

F&B retailers witnessed the most active expansion across all districts of Beijing in the second quarter of 2015. With landlords looking to attract footfall, they continued to offer rental incentives to these retailers. Major leasing deals included:

- Max Brenner committed to a new store in The Place (世贸天阶) in CBD district.
- Crystal Jade launched a new store in the Indigo Mall (颐堤港) in Wangjing district.
- Lafayette Gourmet, a well-known French supermarket, opened a flagship store in the Galeries Lafayette Department Store (老佛爷百货) in Xidan district, marking the brand's entry into China.
- Bianyifang, Beijing's oldest Peking duck restaurant, launched a new outlet in the FunMix Shopping Centre (半岛广场) in Fangshan district.

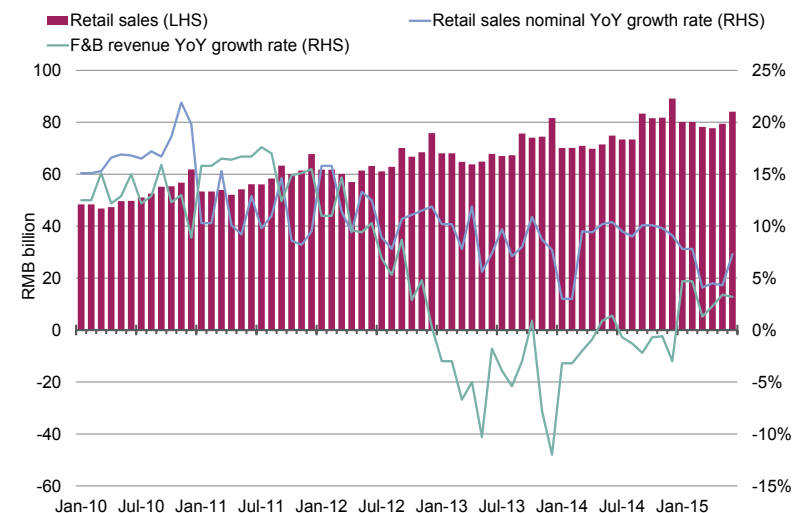
A growing middle-class and improving brand awareness from local residents saw fast-fashion and mid-end luxury brands continue to both enter and expand into the market, looking to further capture market share. Leasing activities in the quarter included:

TABLE 1 **New Supply in Q2/2015**

Project	FunMix Shopping Centre (半岛广场)
	
Location	Fangshan
Retail GFA (sq m)	130,000
Retail type	Shopping mall
Opening date	Q2/2015
Major tenants	Omnijoi Theatre, H&M, Uniqlo, Ochirly, Esprit, Bianyifang.

Source: Source: Savills Research

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



Source: Beijing Statistics Bureau, Savills Research

- Kenzo continued to expand in the Beijing market, launching a new store at China Central Mall (华贸中心) in CBD district.
- Shiatzy Chen, a Taiwanese fashion house, committed to a two-storey flagship store in Jinbao Place (金宝汇) in Wangfujing district.
- Ochirly continued its expansion into the Beijing market, opening a store in the FunMix Shopping Centre (半岛广场) in Fangshan district.
- Tommy Hilfiger launched a two-storey flagship store, its largest in China, in the Intime Lotte Department Store (乐天银泰百货) in Wangfujing district.

Luxury retailers continued to exhibit caution about expansion plans, given the slowing national economy and the government's ongoing anti-graft campaign. However, they continued to show interest in launching new stores in prime projects in core locations such as CBD, Wangfujing and Sanlitun. Transactions of the quarter included:

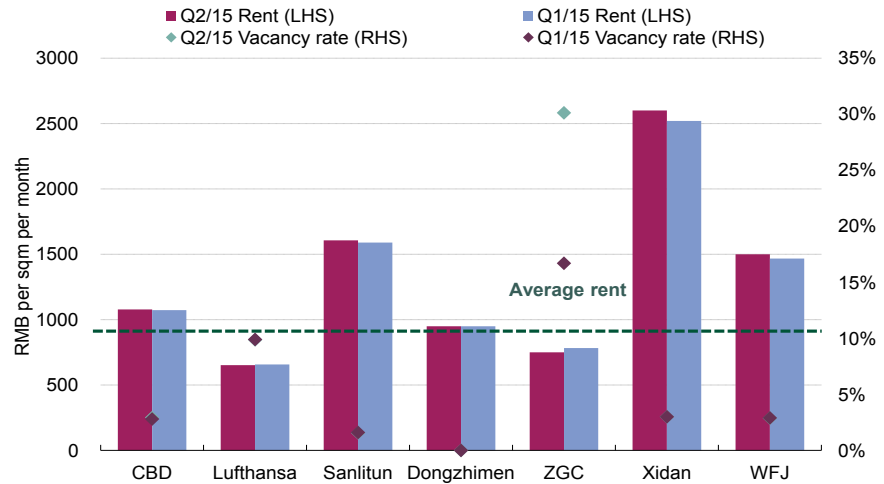
- Montblanc continued its expansion in Beijing, opening a store in The Malls at Oriental Plaza (东方新天地) in Wangfujing district.
- Versace underwent renovations and recommitted to a store in the China World Trade Center (国贸三期) in the CBD district.

By the end of Q2/2015, city-wide shopping mall occupancy rates decreased 1.1 pts QoQ to 94.4%, down 0.4 of a ppt YoY. This was largely a result of an influx of new supply, combined with brand adjustment strategies being undertaken by several existing malls.

The majority of projects in prime locations registered positive occupancy rates, with Wangfujing, Xidan and Sanlitun all seeing rates over 97%. However, this was not the case for non-prime areas, with landlords continuing to be pressured to offer rental discounts to attract suitable tenants. Zhongguancun district, in particular, witnessed a steep increase in vacancy rates as a project acquired

GRAPH 2

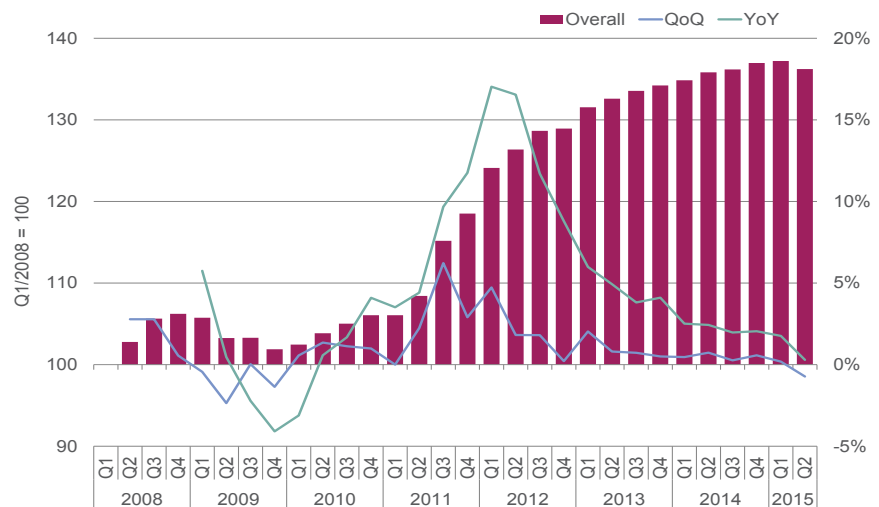
Major retail area vacancy rates and rents, Q1/2015 vs. Q2/2015



Source: Savills Research

GRAPH 3

First-floor shopping mall rental index, Q1/2008–Q2/2015



Source: Savills Research

last year has been taken off the leasing market as they are currently devising a repositioning strategy for their tenant mix.

Rents

Prime retail projects in core areas continued to see long waiting lists from retailers. However, with the majority of demand stemming from F&B and lifestyle retailers with relatively lower rental budgets, a downward pressure has been placed on overall first-floor rents.

As a result, shopping mall first-floor rents decreased 0.7% QoQ to RMB902.4 per sq m per month by the end of Q2/2015, narrowing YoY growth to just 0.3%. Specifically, it was shopping mall first-floor rents in non-prime areas which fuelled the decline, down 1.0% QoQ to RMB643.0 per sq m per month. Meanwhile, prime areas remained stable at RMB1,172 per sq m per month.

Market outlook

The market is expected to receive a significant influx of supply during the second half of 2015, with eight new projects scheduled to launch onto the market, contributing a total retail GFA of over 800,000 sq m. Of this, more than 80% will be located in non-prime areas such as Daxing, Fengtai and Pinggu districts, leading to the further decentralisation of the market. Given the non-prime locations, this

influx of new supply is expected to take a longer period of time to be absorbed by the market. As a result, the anticipated vacant space within new projects is expected to cause city-wide occupancy rates to witness a moderate decline.

Despite most new projects in non-prime locations enjoying increasing accessibility, growing local populations, and being operated

by experienced landlords (such as the Hualian Group and Longfor Properties), retailers are expected to remain hesitant 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 suppressed during the second half of 2015. ■

TABLE 2

Future projects, 2H/2015

Project	Opening date	Retail GFA (sq m)	Location	Retail type
Carrefour Siyuan Shopping Mall (家乐福四元广场购物中心)	Q3	70,000	Wangjing	Shopping Mall
Xanadu Plaza (禧瑞汇)	Q4	38,000	CBD	Shopping Mall
Topwin Centre (通盈商业中心)	Q4	45,000	Sanlitun	Shopping Mall
Hualian Shopping Centre (Pinggu) (北京华联平谷购物中心)	Q4	59,000	Others-Pinggu	Shopping mall
Zhuzong Vanke Plaza (住总万科广场)	Q4	61,000	Others-Daxing	Shopping Mall
Hualian Shopping Centre (Datun) (北京华联大屯购物中心)	Q4	79,000	Others-Datun	Shopping mall
BaoYuan International Shopping Center (宝苑国际购物中心)	Q4	160,000	Others-Fengtai	Shopping Mall
Longfor Time Walk (龙湖时代天街)	Q4	300,000	Others-Daxing	Shopping Mall

Source: Savills Research

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