

Briefing Retail sector

October 2015



Image: AEON Mall, Fengtai district

SUMMARY

Despite new supply, city-wide shopping mall occupancy rates increased to 95.3% by the end of Q3/2015, largely the result of the conversion of a retail project to office usage.

- Retail sales increased 6.3% year-on-year (YoY) to RMB740 billion at the end of Q3/2015. Meanwhile, online retail sales continued to surge, up 38.8% over the same period.

- The third quarter of 2015 welcomed a large amount of new supply, with three new projects entering the market, contributing a total retail GFA of 357,000 sq m. As a result, total mid- to high-end retail stock increased to approximately 10.3 million sq m.

- Despite the new supply, shopping mall city-wide occupancy rates increased 0.9 of a percentage point (ppt) quarter-on-quarter (QoQ) to 95.3%. This was largely the result

of the conversion of the ZGC Plaza Shopping Centre (中关村广场购物中心) to office usage.

- Beijing prime shopping mall first-floor rents were largely constrained, increasing by only 0.2% QoQ and 0.2% YoY to RMB910.6 per sq m per month.

- The last quarter of 2015 is scheduled to receive an influx of supply, with five shopping malls planned to enter the market, with a combined retail GFA of around 530,000 sq m. As approximately 72% of this new supply is to be located in suburban areas, such as Daxing and Pinggu, the market is expected to have difficulties in absorbing the new

supply. As a result, occupancy rates are expected to witness a moderate decline.

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 “Amid a slowing retail market, Beijing shopping mall first-floor rents were largely constrained, up 0.2% QoQ to RMB910.6 per sq m per month, marking the lowest growth seen in the past five years.” Jack Xiong, Savills Research

➔ **Economic overview**

Retail sales totalled RMB740 billion at the end of Q3/2015, representing a 6.3% YoY growth. Meanwhile, online retail sales continued to display strong growth, surging 38.8% over the same period. Urban disposable incomes per capita grew 8.5% YoY by the end of Q3/2015, while urban expenditure per capita registered growth of 8.7% YoY over the same period.

Supply and stock

The third quarter of 2015 welcomed a large amount of new supply. Three projects – BaoYuan International Shopping Centre (宝苑国际购物中心) and AEON Mall (永旺梦乐城), both located in the Fengtai district, and BBMG GEM Mall (金隅嘉品Mall) in the Chaoyang district – contributed a combined retail GFA of 357,000 sq m to the market.

However, the 200,000 sq m under-performing ZGC Plaza Shopping Centre (中关村广场购物中心), located in the ZGC area, was converted to office usage and subsequently removed from the retail basket. As a result, Beijing’s mid- to high-end retail stock increased to around 10.3 million sq m by the end of the period.

Launching onto the market in late September, AEON Mall (永旺梦乐城)

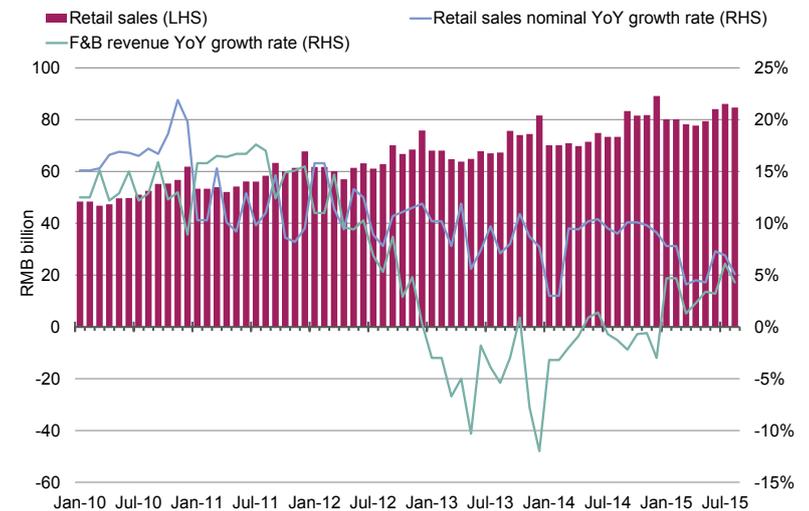
is the first shopping mall project in the Advanced Business Park in Fengtai district. Having already entered the market in the Changping district, the project marks the second shopping mall project by developer, AEON, in the Beijing market. Backed by an experienced operator and lack of competition in the area, the project has already achieved a high occupancy rate.

The launching of BBMG GEM Mall (金隅嘉品Mall) marks the first entrance of a shopping mall project in the Dongba

district. A lack of competing projects combined with a large residential population in the area, has seen many fast fashion, children’s entertainment brands and F&B retailers attracted to the project, as they look to compete for market share.

Comparatively, BaoYuan International Shopping Centre’s (宝苑国际购物中心) performance was not as strong, which can be attributed to the project’s location and weaker surrounding amenities leading to the mall remaining largely vacant.

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



Source: Beijing Statistics Bureau, Savills Research

TABLE1 **New supply in Q3/2015**

Project name	Baoyuan International Shopping Centre (宝苑国际购物中心)	AEON Mall (永旺梦乐城)	BBMG GEM Mall (金隅嘉品Mall)
			
Location	Fengtai district	Fengtai district	Chaoyang district
Retail GFA (sq m)	160,000	100,000	97,000
Retail type	Shopping mall	Shopping mall	Shopping mall
Major tenants	Simple Style, Dream Green, HiBaby, China Gold	AEON Supermarket, China Film, Molly Fantasy, Uniqlo	Poly Cinema, BHG, Molly Fantasy, Uniqlo, Starbucks

Source: Savills Research

The remainder of 2015 is expected to see five more shopping malls launch onto the market. The majority of this supply is to be located in non-prime locations, including the Pinggu and Daxing districts, which is expected to further fuel the decentralisation trend in the market.

Demand and occupancy rates

F&B retailers continued to actively expand in the third quarter of 2015. Landlords, eager to introduce these retailers in the hope of attracting higher footfall to their projects, have been offering rental incentives. Major leasing deals of the quarter included:

- MOKA Bros continued to expand in the Beijing market, launching a new store in The Place (世贸天阶) in the CBD district.

- Café Flo committed a new store in the China World Shopping Mall (国贸商城) in the CBD district.

- Pizza Hut launched a new outlet in the BBMG GEM Mall (金隅嘉品Mall) in the Chaoyang district.

Fast-fashion and affordable luxury brands continued to expand in an attempt to gain market share from the growing middle-class amid improving brand awareness from local residents. Transactions of the quarter included:

- Michael Kors continued its expansion in Beijing, launching a new store in Joy City (西单大悦城) in the Xidan district.

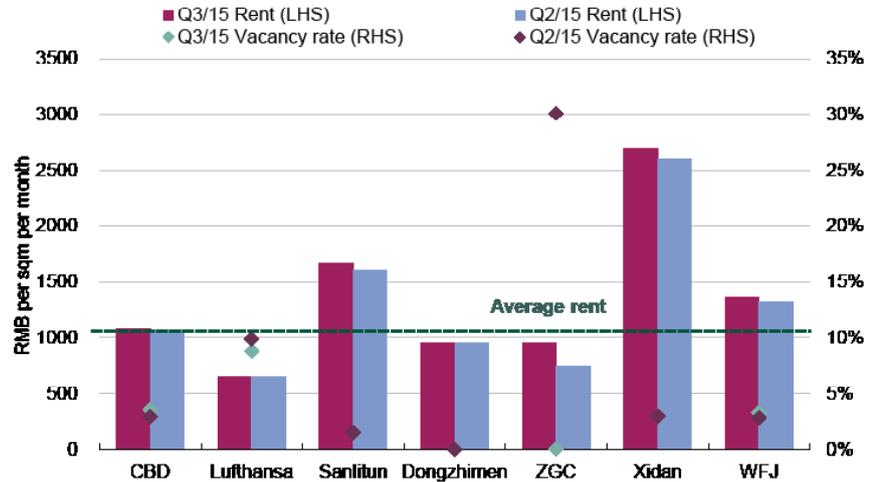
- Neil Barrett, a British designer, opened a new store in Parkview Green (芳草地) in the CBD district.

- Uniqlo continued to expand in the Beijing market, launching one new stores in BBMG GEM Mall (金隅嘉品 Mall) in the Chaoyang district.

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. Leasing activities in the quarter included:

GRAPH 2

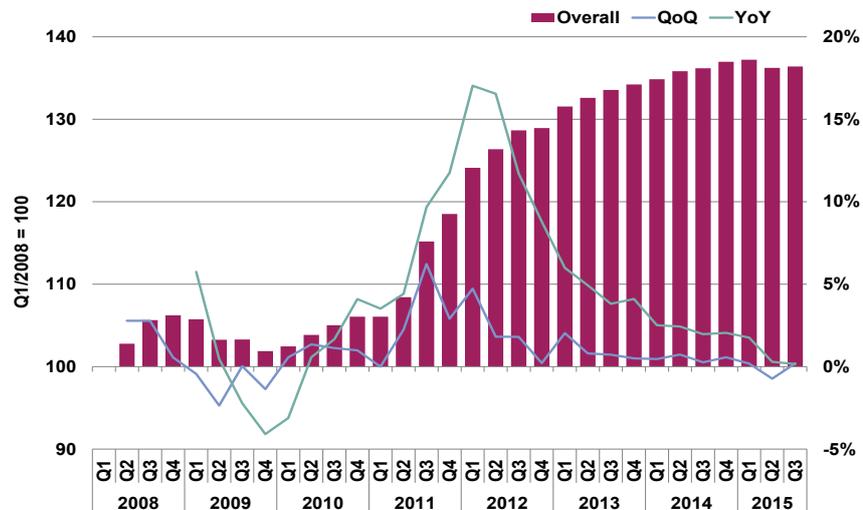
Major retail area vacancy rates and rents, Q2/2015 vs. Q3/2015



Source: Savills Research

GRAPH 3

First-floor shopping mall rental index, Q1/2008–Q3/2015



Source: Savills Research

- Dior underwent renovations and recommitted to a store in the China World Shopping Mall (国贸商城) in the CBD district.

- Moynat committed to a new store in Yintai Center – Park Life (银泰柏悦生活) in the CBD district.

Despite a large amount of new supply, city-wide occupancy rates increased 0.9 of a ppt QoQ to 95.3%, largely the result of the conversion of ZGC Plaza Shopping Centre (中关村广场购物中心) to office usage.

Prime retail projects located in core retail areas continued to be supported by long waiting lists of retailers, with Wangfujing, Xidan and Sanlitun registering occupancy rates of 96.7%, 97% and 98.4%, respectively. Projects located in non-prime and suburban areas generally struggled to improve tenant mix and secure healthy occupancy rates due to immature retail environments. An exception this quarter was the Zhongguancun district, which saw occupancy rates dramatically spike to almost 100%. This, however, was attributed to the

removal of ZGC Plaza Shopping Centre (中关村广场购物中心) from the retail basket as it undergoes a conversion to office usage.

Rents

Given the slowing retail market and the fact F&B and leisure & entertainment retailers with lower rental affordability are dominating demand, Beijing shopping mall first-floor rents were largely constrained during the quarter.

Rents increased just 0.2% QoQ to RMB910.6 per sq m per month during Q3/2015. While this was a 0.2% increase YoY, it marked the lowest growth seen in the past five years. By

catchment, non-prime market rents declined 0.3% QoQ to RMB637 per sq m per month, while prime market rents increased 0.7% to RMB1,195 per sq m per month.

Market outlook

The last quarter of 2015 is scheduled to see five more shopping malls launched onto the market, contributing a total retail GFA of nearly 530,000 sq m. Of this, approximately 72% will be located in suburban areas, such as the Daxing and Pinggu districts. Given the non-prime locations, this influx of new supply is expected to experience difficulties in being absorbed by the market. As a result, the anticipated vacant space

in new projects is expected to see city-wide occupancy rates witness a moderate decline.

The majority of new projects in non-prime locations are becoming increasingly accessible to the public, due to rapidly developing infrastructure, and are to be operated by experienced landlords. Despite this, it is expected that retailers will remain apprehensive about exploring these areas. As a result, it is anticipated landlords will remain under pressure to offer rental incentives to attract suitable tenants which will see overall rental growth continue to be constrained in the short- to mid-term. ■

TABLE 2 Future projects, Q4/2015

Project	Opening date	Retail GFA (sq m)	Location	Retail type
Longfor Time Walk (龙湖时代天街)	Q4	220,000	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
Carrefour Siyuan Shopping Mall (家乐福四元广场购物中心)	Q4	70,000	Wangjing	Shopping Mall
Zhuzong Vanke Plaza (住总万科广场)	Q4	100,000	Others-Daxing	Shopping Mall
Hualian Shopping Centre (Pinggu) (北京华联平谷购物中心)	Q4	59,000	Others-Pinggu	Shopping Mall

Source: Savills Research

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