

Briefing Retail sector

May 2016



Image: Zhuzong Vanke Plaza, Daxing District

SUMMARY

Despite a slow economic environment, the retail market continued to see active expansion from F&B, children's, leisure and lifestyle retailers.

- Retail sales increased 1.0% year-on-year (YoY) to RMB161.7 billion in the first two months of 2016, however, the growth rate declined 6.8 percentage points (ppts) YoY.

- One new project entered the retail market in the first quarter of 2016, BHG Shopping Mall (华联平谷购物中心) in the Pinggu district, adding 59,000 sq m of retail GFA to the market. As a result, overall stock increased to 10.47 million sq m.

- Shopping mall city-wide occupancy rates decreased slightly,

down 0.3 of a ppt to 94.5% by the end of Q1/2016.

- First-floor shopping mall rents remained stable, increasing by only 0.2% quarter-on-quarter (QoQ) to an average of RMB897.5 per sq m per month.

- The remainder of 2016 will see the market receive an influx of supply, with eight more mid- to high-end shopping malls scheduled to be launched, contributing a total retail GFA of around 590,000 sq m.

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“The Daxing district will welcome the majority of new supply in 2016, with two large shopping malls scheduled to make their debut.” Jack Xiong, Savills Research & Consultancy

➔ **Economic overview**

Overall retail sales increased 1.0% YoY to RMB161.7 in the first two months of 2016. However, the growth rate significantly declined, down by 6.8 pts from the same period last year.

Supply and stock

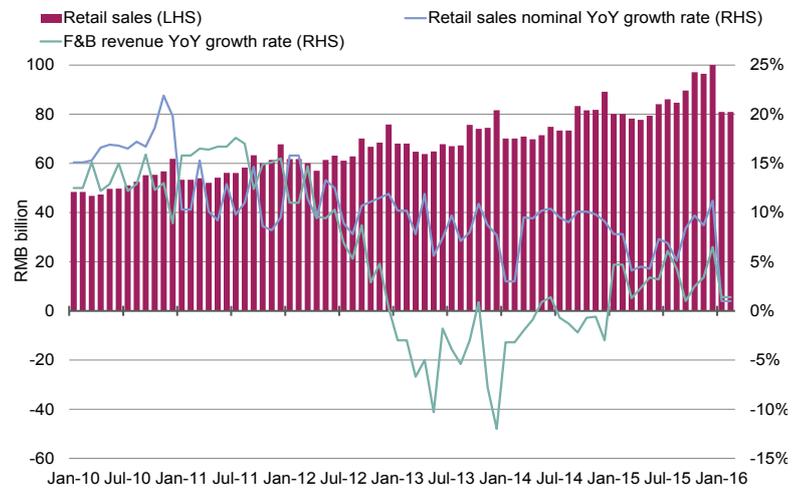
Only one new project entered the retail market in the first quarter of 2016, BHG Shopping Mall (华联平谷购物中心) in the Pinggu district, adding 59,000 sq m of retail GFA to the market. As a result, overall stock increased to 10.47 million sq m. Positioned as a mid-end shopping mall, and backed by an experienced operator the Beijing Hualian Group, the project was able to attract many well-known retailers.

Demand and occupancy rates

Amid a period of economic slowdown, demand in the retail market generally remained weak. The problem was further exacerbated by increasing competition from online sales, which continued to see consumers dragged away from traditional brick-and-mortar retailers. Faced with these challenges, operators have strengthened their efforts towards increasing footfall and developing customer loyalty.

GRAPH 1

Retail sales, Jan 2010 – Feb 2016



Source: Beijing Statistics Bureau, Savills Research & Consultancy

TABLE 1
New Supply in Q1/2016

Project	BHG Shopping Mall – Pinggu (北京华联平谷购物中心)
	
Location	Pinggu
Launch time	January 2016
Operator	Beijing Hualian Group
Retail type	Shopping mall
Retail GFA(sq m)	59,000
Tenant mix	Clothing, Accessories, F&B, Children's, Leisure, Lifestyle
Anchor tenants	BHG Lifestyle Market, Jackie Chan Cinema
Major tenants	Pizza Hut, Yuyuto, Jack Jones

Source: Savills Research & Consultancy

F&B retailers continued to aggressively expand in the market during the period. The expansion was largely encouraged by landlords as these retailers are known for their strong ability to boost foot traffic in projects. An increasing amount of shopping malls are beginning to allocate a larger portion of their projects to this retailer category, while at the same time employing targeted leasing strategies with the hope of capturing a wider group of consumers. Confidence in entering the market from foreign F&B retailers appeared to grow, with one example seeing well known Max Brenner Chocolate Bar making their China debut with an iconic two-level store located in The Place (世贸天阶).

Shopping mall city-wide occupancy rates decreased slightly, down 0.3 of a ppt to 94.5% by the end of Q1/2016. By submarket, prime locations experienced the weakest performance, down 1 ppt to 94.2% by the end of the period. This was largely the result of ongoing branding readjustment strategies being undertaken by several projects.

Rents

First-floor shopping mall rents remained stable, increasing by only 0.2% QoQ to an average of RMB897.5 per sq m per month.

Market outlook

The remainder of 2016 will see the market receive an influx of supply,

with eight more mid- to high-end shopping malls scheduled to be launched, contributing a total retail GFA of approximately 590,000 sq m. The Daxing district will receive the majority of new supply, with Zhuzong Vanke Plaza (住总万科广场) and Longfor Time Walk (龙湖·大兴天街) contributing 98,000 sq m and 150,000 sq m of retail GFA, respectively. Supported by large residential populations and rapidly developing transportation networks, as well as these projects being operated by experienced landlords, non-prime areas are expected to accelerate towards maturity.

An amendment to the government's recently announced new restrictions on the development of new industries in six downtown districts in Beijing has seen commercial facilities with a GFA exceeding 10,000 sq m prohibited from being developed within the zone. As a result, the market is expected to continue the trend of decentralisation as more developers look to explore suburban locations.

Fierce competition from online retailers, combined with a scheduled influx of new supply, is expected to see first-floor rental growth largely constrained. It will be essential for landlords to focus on targeted tenant-mix strategies and additional service innovations to attract consumers and improve mall performance. ■

TABLE 2
Future project focus, 2016

Project	Zhuzong Vanke Plaza (住总万科广场)	Longfor Time Walk (龙湖·大兴天街)
		
Location	Daxing	Daxing
Estimated opening date	Q2/2016	Q3/2016
Developer	Vanke	Longfor
Retail type	Shopping mall	Shopping mall
GFA (sq m)	98,000	150,000
Major tenants	BRAVO YH, Lumiere, Babela	WU Mart, SFC Cinema, Xiyo Ice Skating Rink

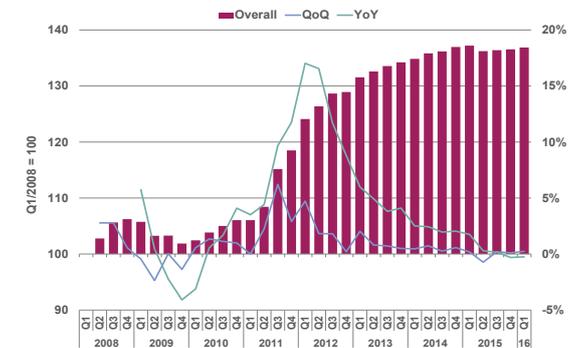
Source: Savills Research & Consultancy

GRAPH 2
Major retail area vacancy rates and rent index, Q1/2016 vs. Q4/2015



Source: Savills Research & Consultancy

GRAPH 3
First-floor shopping mall rental index, Q1/2008 – Q1/2016



Source: Savills Research & Consultancy

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