

Briefing Retail sector

October 2016



Image: Times Paradise Walk-Daxing, Daxing District

SUMMARY

Large retailers further extended their footprint into non-prime and suburban submarkets; expansions by experience-led tenants continued to see virtual reality emerge as an important footfall generator.

- Retail sales increased 4.8% year-on-year (YoY) to RMB775.8 billion in the first three quarters of 2016.
- Two new projects were launched onto the market in Q3/2016, contributing a combined retail GFA of approximately 294,000 sq m.
- Shopping mall city-wide occupancy rates increased by 0.4 of a percentage point (ppt) to 94.9% by the end of Q3/2016.
- First-floor shopping mall rents edged higher during the period, up 0.3% quarter-on-quarter (QoQ) to an average of RMB916.2 per sq m per month.
- The remainder of 2016 will see the market receive an influx of supply, with five more mid- to high-end shopping malls scheduled to be launched, contributing a total retail GFA of approximately 683,000 sq m.

“Robust demand from retailers is expected to continue, however, an intensive supply pipeline in the short term may lead to a further divergence in performance among projects.”
Jack Xiong, Savills Research & Consultancy

➔ **Economic overview**

Retail sales increased 4.8% YoY to RMB775.8 billion in the first three quarters of 2016, marking a further rebound from the 3.8% YoY growth registered for 1H/2016. Online retail sales continued to record strong momentum, registering a 12.0% YoY increase.

According to the latest data from the Beijing Municipal Statistics Bureau, urban disposable income per capita grew 7.4% YoY by the end of 1H/2016. Meanwhile, expenditure per capita registered growth of 4.0% YoY over the same period.

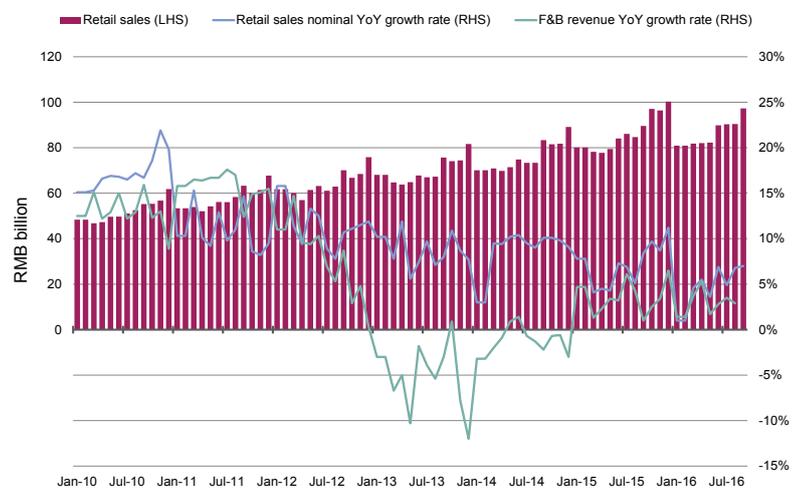
Supply and stock

The third quarter of 2016 welcomed a large amount of new supply, with two projects – Times Paradise Walk-Daxing (龙湖大兴时代天街) located in the Daxing district and Inzone Harmony Mall (银座和谐广场) in the Fengtai district – contributing a combined retail GFA of 294,000 sq m.

- On 1 July, the Longfor Group launched their second “Paradise Walk” project in Beijing in the Daxing district. The shopping mall is located directly above the Biomedical Base Station on the Daxing Metro Line and offers a retail GFA of 154,000 sq m. The mall is occupied by renowned brands and is a fully-integrated commercial complex

GRAPH 1

Retail sales, January 2010 – September 2016



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

offering a rich user experience. Strong pre-commitment rates have seen the project achieve an occupancy rate higher than 95% and have set a solid foundation for its successful operation. The project fills the consumption gap in the Daxing district of Southern Beijing and is expected to pull up family spending in the region with a variety of F&B, entertainment and children’s-related offerings.

- Inzone Harmony Mall launched onto the market in the Fengtai district on

10 September, contributing 140,000 sq m of retail GFA. The project is well serviced by public transport, and is within short walking distance of Liuliqiao Station of Metro Lines 9 and 10. The community-based shopping mall experienced strong tenant pre-commitment which saw it reach an occupancy level of 98% upon opening. Looking to attract consumers from the rapidly maturing surrounding residential communities, major tenants included Inzone Supermarket, Jinyi Cinema, Decathlon and MUJI.

TABLE 1 **New Supply in Q3/2016**

Project	Times Paradise Walk – Daxing (龙湖大兴时代天街)	Inzone Harmony Mall (银座和谐广场)
		
Location	Daxing	Fengtai
Launch date	July 2016	September 2016
Developer	Longfor	Inzone & Team Choice
Retail type	Shopping Mall	Shopping Mall
Retail GFA (sq m)	154,000	140,000
Major tenants	WU Mart, SFC Cinema, Ice Joy Rink, Decathlon	Inzone Supermarket, Jinyi Cinema, Decathlon, MUJI, Uniqlo

Source: Savills Research & Consultancy

Department stores continued to see sluggish performance. The market saw the 12,000 sq m under-performing Ito Yokado (华堂) Department Store, located in the Daxing district, converted to office usage and subsequently removed from the retail basket. In addition to this, the Hualian Department Store in the Majiapu area closed for refurbishment during Q3/2016, with the intention to reopen as a shopping mall in 2017. Meanwhile, plagued by unsatisfying performance, the Parkson Group sold its Sun Palace store to a domestic investment company.

Demand and occupancy rates

The market saw robust demand during Q3/2016, driven by the expansion of various retailers. International retailers continued to display a strong presence in premium malls in core locations. For instance, high-end cognac store Louis XIII, by the LVMH Group, committed to

a space in SKP Beijing in the CBD. The project also welcomed the opening of designer brand Jimmy Choo and Korean cosmetics brand Hera during the same period. Joy City in the Xidan district also proved attractive for retailers, with Karl Lagerfeld, Maje and Sandro all opening new stores during the quarter.

Large retailers, including hypermarkets and sports retailers, have actively worked to extend their footprints in areas outside the Fifth Ring Road as they look to capture market share from the rapidly maturing residential areas. Activity during the quarter saw Sam's Club, Wal-Mart's high-end membership store, launch an operation in a commercial supporting facility of a large residential project in the Shunyi district, and Greenland Group's G-Super commit to open their first Beijing store in Being Funny Phase II (缤纷城购物中心二期) in the Daxing district before the end of 2016. Other news included Decathlon, the French sports goods retailer, opening three new stores in the city, two of which were located in decentralised locations in southern Beijing.

Looking to drive footfall performance, landlords have further encouraged experience-led retailers to their projects. For instance, Fun Capital, a comprehensive tourism, shopping and culture complex which recently opened in the Changping district, has included a large amusement park, intended to capture a wider target market. For existing projects, the rapidly emerging virtual reality (VR) sector has played a particularly prominent role, with a number of malls having set up displays in an attempt to draw in consumers and increase footfall. Notable examples have seen a Samsung-backed VR experience centre erected in front of the recently launched Topwin Center in Sanlitun, and a 6,000 sq m robotics and VR display in Glory Mall in the Chongwenmen submarket.

A growth in health consciousness has seen the Sporting & Recreation sector also become a major draw card for consumers. During Q3/2016, Segway, the US battery-powered electric vehicle retailer, launched its first flagship store in China in the Beichen Century Center. SpaceCycle, a trendy Taiwanese fitness studio, made its debut in Beijing in Taikoo Li North in Sanlitun and committed to opening a

branch in the China World Mall Phase III.

High occupancy rates in newly-opened malls, combined with the quick expansion of large retailers and other large experience-led tenants, saw shopping mall city-wide occupancy rates register 94.9% by the end of Q3/2016, up 0.4 of a ppt QoQ.

Occupancy rates in prime submarkets remained largely stable, registering at 93.1%. Despite international retailers continuing to open new stores in premium malls, ongoing tenant adjustment strategies in some projects, such as Beijing Mall, offset an overall occupancy increase in the submarket.

Rapidly growing residential populations outside the Fifth Ring Road area have offered great support to both sub-regional and community-based malls located there. Given this, the occupancy rate of the non-prime submarket increased by 0.2 of a ppt to 95.3%, while the suburban submarket climbed by 1.1 ppts to 95.6% by the end of Q3/2016.

Rents

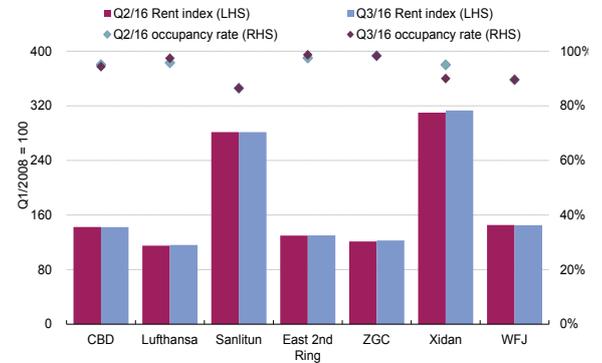
First-floor shopping mall rents continued to edge up during the quarter, increasing by 0.3% QoQ to an average of RMB916.2 per sq m per month.

Premium malls including Joy City (Xidan) and The Malls at Oriental Plaza maintained strong rental performance, which supported the overall prime submarket in remaining largely stable during the quarter. Meanwhile, sub-regional malls in non-prime locations which are operated by experienced landlords, such as Joy City (Chaoyang) and Paradise Walk (Changying), also witnessed strong growth, and as a result average rents in the non-prime submarket were up by 0.7% QoQ over the same period.

Market outlook

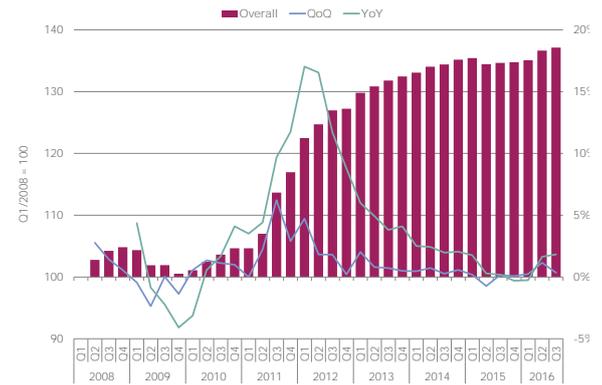
The remainder of 2016 will see the market receive an influx of supply which will be concentrated in non-prime and suburban submarkets. Five more mid- to high-end shopping malls are scheduled to be launched, contributing a total retail GFA of approximately 683,000 sq m. The Fengtai district will welcome the majority of the new supply, with

GRAPH 2 Major retail area vacancy rates and rent index, Q3/2016 vs. Q2/2016



Source: Savills Research & Consultancy

GRAPH 3 First-floor shopping mall rental index, Q1/2008 – Q3/2016



Source: Savills Research & Consultancy

Fengtai Wanda Plaza (丰台万达广场) and Huaifang Wanda Plaza (槐房万达广场) set to contribute 127,000 sq m and 176,000 sq m of retail GFA, respectively. The new projects planned for these submarkets are expected to function well as supporting facilities and further fill the consumption gap of the rapidly maturing residential clusters located in these areas.

Despite the expectation that retail sales will continue to slow down in line with economic growth, it is likely retailers will continue to maintain a strong level of demand. Firstly, it is expected that international retailers will continue to view Beijing as a key initial destination as they look to enter the Northern China market. Secondly, it is anticipated that retailers will continue to actively extend their footprints in

TABLE 2
Future project focus, 2016

Project	Huaifang Wanda Plaza (槐房万达广场)	Fengtai Wanda Plaza (丰台万达广场)
		
Location	Fengtai	Fengtai
Estimated opening date	Q4/2016	Q4/2016
Developer	Wanda	Wanda
Retail type	Shopping Mall	Shopping Mall
GFA (sq m)	176,000	127,000
Major tenants	Bravo YH, Wanda Cinema, Good Feeling Fitness	Wanda Cinema, Kids Place, Suning Appliance

Source: Savills Research & Consultancy

the outer areas of the city as rapidly developing infrastructure is seeing the majority of projects in these locations become increasingly accessible to the public.

An intensive pipeline of new supply will see the market face greater competition, and as a result a greater divergence in performance is expected to emerge among the submarkets and projects. Both premium malls and sub-regional malls that are operated by experienced landlords are expected to continue to achieve rental growth momentum as they respond timely and implement suitable tenant adjustment strategies. At the same time, submarkets which are host to a supply surplus, may see some projects struggle to find the tenant mix they need to maintain their operations, and consequently high vacancy rates and unsatisfactory rental performance is to be expected. ■

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