

Briefing Retail sector

February 2017



Image: Fengtai Wanda Plaza, Fengtai District

SUMMARY

Leasing demand remained quite strong during the quarter, particularly in December as multiple retailers strengthened their presence in the market given the approach of the festive season.

- Retail sales increased 6.1% year-on-year (YoY) to RMB990.4 billion in the first 11 months of 2016.
- The market received a significant level of new supply in Q4/2016, with five new projects contributing a combined retail GFA of approximately 476,000 sq m.
- Robust leasing demand drove shopping mall city-wide occupancy rates up by 0.1 of a percentage point (ppt) to 95.0% by the end of Q4/2016.
- Strong rental growth in non-prime malls facilitated first-floor shopping mall average rents to edge up 1.2% quarter-on-quarter (QoQ) to an average of RMB926.9 per sq m per month.
- 2017 is expected to see an influx of supply, with majority to come from non-prime and suburban submarkets, resulting in more retail clusters emerging in these areas.

“Experienced landlords need to be responsive to market change and adopt suitable tenant adjustment strategies for their projects in order to maintain their growth momentum.” Jack Xiong, Savills Research & Consultancy

➔ **Economic overview**

Retail sales increased 6.1% year-on-year (YoY) to RMB990.4 billion in the first 11 months of 2016, up 0.9 of a ppt from the end of October 2016. Online retail sales continued to record strong momentum, registering an 18.2% YoY increase and accounted for 17.8% of total retail sales during the same period.

According to the latest data from the Beijing Municipal Statistics Bureau, urban disposable income per capita grew 8.4% YoY by the end of October 2016. Meanwhile, expenditure per

capita registered a growth of 4.0% YoY over the same period.

Supply and stock

The market received a significant level of new supply in Q4/2016, with five new projects contributing a combined retail GFA of approximately 476,000 sq m. In line with the decentralisation trend in the market, all of the new supply during the period was located in non-prime and suburban submarkets. The standout projects of the period included two openings by Wanda Group

- Fengtai Wanda Plaza (丰台万达广场) launched onto the market in December 2016, adding approximately 127,000 sq m of retail GFA. Located in the Fengtai district, the mall has focused on filling the consumption gap in the rapidly maturing residential community. Backed by an experienced developer, the project was fully occupied upon its opening. The project is anchored by the large retailers under the Wanda Group umbrella such as Wanda Cinema, Super Player and Kids Place. In addition, the project has also incorporated other well-known brands, namely Yonghui Supermarket, Zara and Uniqlo

- Huaifang Wanda Plaza (槐房万达广场), the first light-asset project of Wanda Group in China, also made its debut in December 2016, contributing

approximately 176,000 sq m of retail GFA to the market. Located in the Fengtai district, adjacent to Xingong Metro Station on the Daxing Line, the community shopping mall project was fully occupied upon opening. Major tenants include Wanda Cinema, Uniqlo and Starbucks Coffee.

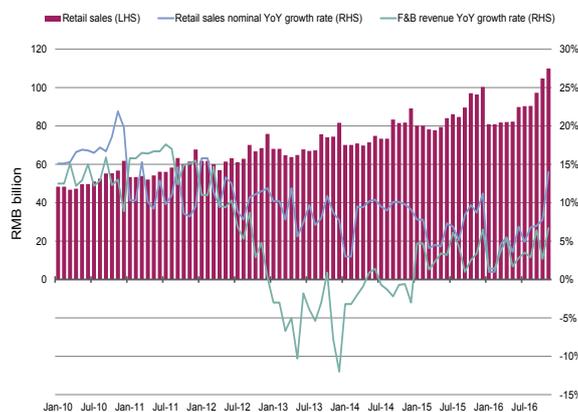
Other new openings included Hengtai Plaza (恒泰广场) also in the Fengtai District, Greenland Being Funny Phase II (绿地缤纷城二期) in the Daxing District, and Jingtougang-Changyang (京投港-长阳) in Fangshan. All positioned as community-based malls, these new projects are expected to both facilitate the development of commercial environments in their respective areas and serve as supporting facilities for the surrounding emerging residential communities.

Meanwhile, the market continued to see department stores closing due to their sluggish performance. Ito Yokado - Shilipu (华堂商场十里堡店) outside the East Fourth Ring Road and Beijing Sun Palace Parkson (百盛太阳宫店) in the Lufthansa area both closed their doors in October 2016. It has been reported that both properties will be converted to office usage in the near future.

Demand and occupancy rates

Leasing demand remained strong

GRAPH 1 **Retail sales, Jan 2010 – Nov 2016**



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

TABLE 1 **New Supply in Q4/2016**

项目名称	Huaifang Wanda Plaza (槐房万达广场)	Fengtai Wanda Plaza (丰台万达广场)	Hengtai Plaza (恒泰广场)	Jingtougang - Changyang (京投港-长阳)	Greenland Being Funny Shopping Center Phase II (绿地缤纷城购物中心二期)
Location	Fengtai	Fengtai	Fengtai	Fangshan	Daxing
Launch date	Dec 2016	Dec 2016	Dec 2016	Dec 2016	Dec 2016
Developer	Wanda	Wanda	Huizhong Hengtai	Beijing Infrastructure Investment	Greenland Group
Retail GFA (sq m)	176,000	127,000	80,000	53,000	40,000
Major tenants	Bravo YH, Wanda Cinema, Good Feeling Fitness	Wanda Cinema, Kids Place, Suning Appliance	Wu Mart, New Look, YY Sports, Starbucks Coffee	Decathlon, La Chapelle, Top Feeling	G-Super, U Lifestyle, Sesame Street English

Source: Savills Research & Consultancy

during the quarter, particularly in December as multiple retailers strengthened their presence in the market given the approach of Christmas and the New Year Holiday. International retailers had a boost in performance in terms of expansion activity during the quarter. A selection of mid- to high-end fashion brands looking to tap into the burgeoning middle class market, made their debuts in the city. Notable store openings included:

- Abercrombie & Fitch opened a two-storey 600-sq m shop in Taikoo Li Sanlitun (South).

- Lululemon, a Canadian athletic apparel retailer, opened in Taikoo Li Sanlitun (North).

- Lucien Wang, a high-end designer brand, launched its first regular store in the city in Parkview Green in the CBD.

Fast-fashion retailers also opened new stores and continued to expand their footprints into non-prime markets. Transactions of interest saw Forever 21 commit to a store in U-Town Lifestyle Center and Uniqlo open three new stores consecutively during the quarter, all of which are located in emerging retail clusters.

With regards to domestic retailers, the major source of demand continued to stem from experience-led categories - F&B, Entertainment, Service and Children's. Mr. Meng (孟非的小面), a casual dining brand owned by the well-known TV host, opened its first store the city in the Topwin Center and has committed to a second store in the Viva Beijing R&F Plaza. An increasingly popular niche demand saw the opening several martial arts training centres community malls across the city.

Benefiting from robust leasing demand in Q4/2016, city-wide average shopping mall occupancy rates increased by 0.1 of a ppt to 95.0%.

Occupancy rates in prime areas saw improvement during the quarter, up 0.5 of a ppt to 93.6%. The Topwin Center witnessed a sharp increase in occupancy rates with the opening of an array of F&B retailers on its upper floors lifting the project's occupancy to over 80% by the end of the quarter. Meanwhile, The Place kicked off another round of tenant adjustments, with more vacant space temporarily

opening up on the upper floors.

Non-prime and suburban markets witnessed occupancy rates decrease during the quarter, largely due to the relatively high vacancy rates seen in newly opened malls. Non-prime occupancy rates dropped by 0.3 of a ppt to 95.0%, while those in the suburbs declined by 0.6 ppts to 95.0% by the end of Q4/2016. However, with growing residential populations gathering in these areas, it is expected that retailers will maintain a positive outlook with regards to malls in these locations which in turn is expected to fuel the rapid maturity of a number of projects.

Rents

Largely due to the strong demand driven by fashion retailers, first-floor shopping mall rents continued to edge up during the quarter, by 1.3% QoQ to an average of RMB926.9 per sq m per month.

Average prime rents increased by 0.6% QoQ to RMB1,197.0 per sq m per month. Malls, such as Taikoo Li Sanlitun and Parkview Green, continued to be appealing to well-known international retailers and new market entrants, consequently enabling them to sustain strong rental performances. However, ongoing repositioning and tenant adjustment strategies in some projects saw rents remain largely flat or even decrease slightly, offsetting rents to some extent.

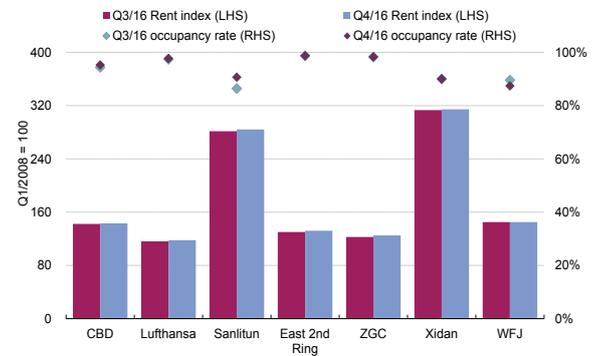
Non-prime markets continued to achieve strong growth levels, with average rents increasing by 1.9% QoQ to RMB 701.0 per sq m per month. Sub-regional malls such as Indigo, Paradise Walk (Changying) and Joy City (Chaoyang), continued to benefit from the growing demand from residents in their neighbourhoods and thus remained favourable choices for retailer's expansion plans.

Market outlook

The market is expected to receive an influx of supply in 2017, with 14 mid- to high-end shopping malls contributing a total of approximately 1,105,600 sq m. With around 80% expected to come from non-prime and suburban markets it is expected that the city is likely to see a growing number of emerging retail clusters in outlying areas.

Despite the expectation that retail sales will continue to slow down in line with economic growth, it is likely

GRAPH 2 Major retail area vacancy rates and rent index, Q3/2016 vs. Q4/2016



Source: Savills Research & Consultancy

GRAPH 3 First-floor shopping mall rental index, Q1/2008 – Q4/2016



Source: Savills Research & Consultancy

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 starting point when looking to enter the northern China market. Secondly, it is anticipated that retailers will continue to actively extend their footprints in the outlying areas of the city as rapidly developing infrastructure is seeing the majority of projects in these locations become increasingly accessible to the public.

Further to this, the market is likely to see new demand for prime retail space generated from sectors undergoing rapid growth. On one hand, the market is expected to see more brick and mortar stores opened by online retailers, with more of them boosting their efforts to be multi-channelled. A recent example has seen He Ma Xiang Sheng (盒马鲜生), a vertical online retailer specialising in fresh products, sign an agreement with Chaoyang

TABLE 2
Future project focus, Q1/2017

Project	Hi-UP (华熙五棵松Hi-UP)	WF Central (王府中环)
		
Location	Wukesong	Wangfujing
Estimated opening date	Q1/2017	Q2/2017
Developer	Bloomage	Hongkong Land
Retail type	Shopping Mall	Shopping Mall
Retail GFA (sq m)	58,500	50,000
Major tenants	IKEA Designing Center, Yan Ji You	TBC

Source: Savills Research & Consultancy

iShine City to opened its first store in Beijing during 1H/2017.

Stimulated by government policies promoting “mass entrepreneurship and innovation”, will likely see co-working spaces that are home to high-tech and cultural creative enterprises continue to expand in the city, particularly in cooperation with shopping malls. Recent news has seen URWork confirm a strategic alliance with the CapitaLand Group which will see them open a 1,300 sq m co-working space in CapitaMall Wangjing also in 1H/2017.

An intensive pipeline of new supply will trigger increased competition, particularly in areas with a developing commercial environment. Malls in such areas are likely to see higher vacancy rates and lower rents. However, it is expected that experienced landlords will be responsive to market change and adopt suitable tenant adjustment strategies for their projects in order to maintain their growth momentum. ■

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