

Briefing Retail sector

April 2017



Image: SOLANA-Wukesong, Wukesong District

SUMMARY

Athleisure and sports retailers expanded rapidly, as they looked to tap into a burgeoning middle class and a fast-growing health consciousness in the city.

- Retail sales increased 4.1% year-on-year (YoY) to RMB168.35 billion in the first two months of 2017.
- The first quarter of 2017 received a low level of new supply, with only one new project debuting, contributing a total retail GFA of approximately 58,500 sq m.
- City-wide shopping mall occupancy rates decreased by 1.7 percentage points (ppts) quarter-on-quarter (QoQ) to 93.3% by the end of Q1/2017.
- First-floor shopping mall rents were largely flat during Q1/2017, increasing by 0.1% QoQ to an average of RMB928.8 per sq m per month.
- The remainder of 2017 will see the market receive an influx of supply, which will be concentrated in non-prime and suburban submarkets. The market is scheduled to see 13 new mid- to high-end shopping malls debut and contribute a total retail GFA of approximately 1.05 million sq m.

“Large retailers continued to face problems, with sluggish performances and rising costs leading to several closures during the quarter.” Jack Xiong, Savills Research & Consultancy

➔ **Economic overview**

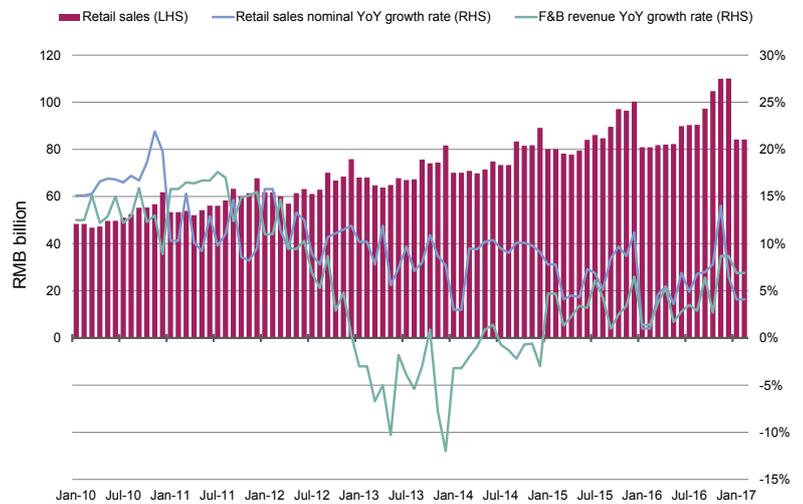
Retail sales increased 4.1% YoY to RMB168.35 billion in the first two months of 2017. Online retail sales continued to record strong growth momentum, registering a 25.2% YoY increase and accounting for 17.6% of total retail sales during the same period.

Supply and stock

The first quarter of 2017 welcomed only one new project in the Wukesong district. In addition, the market witnessed the conversion of a department store into a shopping mall in the same precinct. The new projects look to spark the revamping of a once subdued submarket, of which previously the only main attraction was an underperforming department store. By the end of the quarter, total shopping mall stock increased to 8.8 million sq m, while department store stock declined to 2.1 million sq m.

- HI-UP (五棵松HIUP) launched onto the market in March 2017, adding approximately 58,500 sq m of retail GFA. Located in the Wukesong district, with direct access to Wukesong Station on Subway Line 1, the project is a welcome commercial development which should serve well as a supporting facility for the surrounding residential community.

GRAPH 1 **Retail sales, Jan 2010 – Feb 2017**



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

Low pre-commitment rates have seen the project achieve an occupancy rate of only around 60%, albeit this can be expected as the project is not located in a prime submarket and the vacant space is expected to be absorbed over time.

- SOLANA-Wukesong (蓝色港湾-五棵松) also debuted in the Wukesong

district during the first quarter. Previously positioned as the Charter Shopping Center, which was a 340,000 sq m department store opened in 2012, the project has been acquired by Solana and repositioned as a shopping mall. Despite the project currently still remaining in a transitional stage, with an occupancy rate of only approximately 60%, if the developer is able to leverage the success of their sister project, SOLANA Lifestyle Shopping Park in the Lufthansa district, they remain hopeful that performance will improve. The project has already been able to attract a number of well-known retailers, with H&M, GAP and Jackie Chan Cinema all securing leases.

Meanwhile, department stores across the city continued to struggle to survive in the increasingly challenging retail market. Junefield SOGO (庄胜崇光) located in the Xidan district, announced they will be exiting the market, with it rumoured the project will be converted to office usage in the near future.

Demand and occupancy rates

Leasing demand remained relatively strong during Q1/2017, however, there was a slight decline in demand due to the traditional quiet season caused by the Chinese New Year holiday falling during the period.

Fashion retailers continued to dominate expansion during the quarter, with the athleisure and sports

TABLE 1 **New Supply in Q1/2017**

Project	Hi-UP (华熙五棵松Hi-UP)	Solana-Wukesong (蓝色港湾-五棵松)
		
Location	Wukesong	Wukesong
Estimated launch date	Q1/2017	Q1/2017
Developer	Bloomage	Solana
Retail type	Shopping Mall	Shopping Mall
Retail GFA (sq m)	58,500	340,000
Major tenants	IKEA Designing Center, Yan Ji You	H&M, GAP, Jackie Chan Cinema

Source: Savills Research & Consultancy

categories showing a particularly aggressive appetite. Looking to tap into a burgeoning middle class and a rapidly-growing health conscious attitude in the city, notable activity included:

- Nike & Jordan Basketball Experience Store launched in the EC Mall in the Zhongguancun district. Spread over two floors and 600 sq m, it is the largest experience store in Nike's global portfolio.

- SOLANA in the Lufthansa district finished renovations of the "Brand

Street" in their project. The completion now sees a clustering of sports retailers, including Reebok, Nike, Puma and a flagship store by Adidas.

- Under Armour continued its expansion into the Beijing market with a new store opening in Longfor-Paradise Walk in the Changying district.

Large retailers continued to face problems, with sluggish performances and rising costs leading to several closures during the quarter. Exits included:

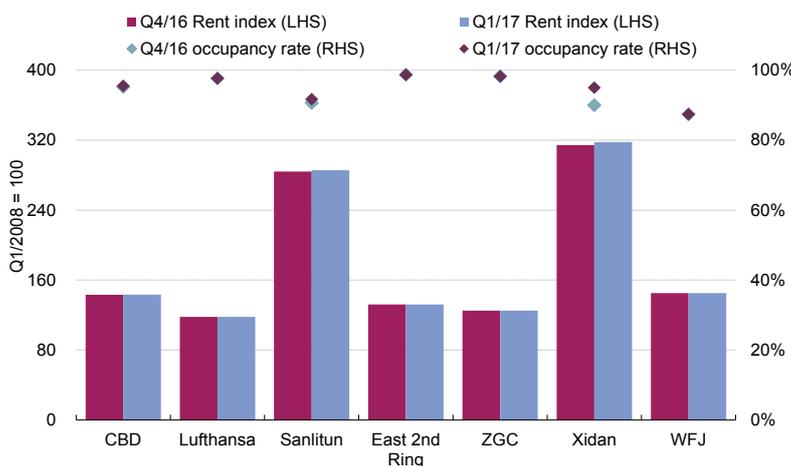
- Walmart in the Wangjing district closed its doors during the period.

- Mark & Spencer, a major British multinational retailer, vacated its premises in The Place in the CBD district in March 2017.

- 10 Corso Como, an Italian buyer store, closed its only store in SKP Beijing in the CBD district in February 2017, and exited the China market.

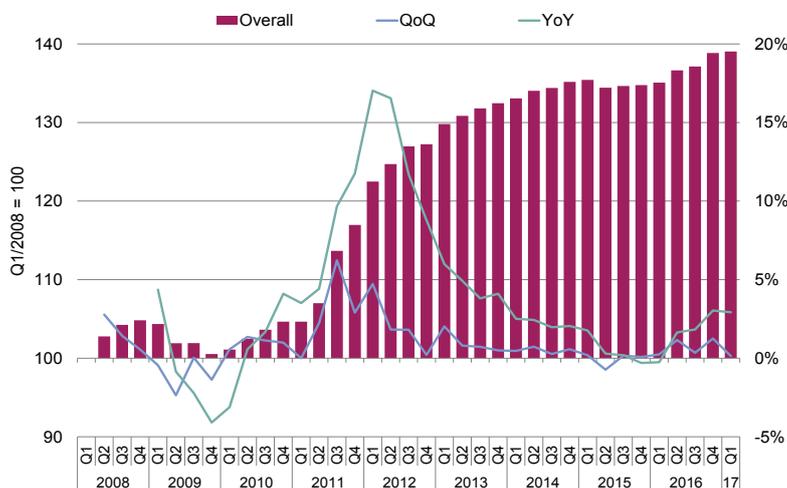
- Burberry, a British luxury fashion house, closed its doors in The Malls at Oriental Plaza in the Wangfujing district and in SKP Beijing in the CBD district.

GRAPH 2 Major retail area vacancy rates and rent index, Q4/2016 vs. Q1/2017



Source: Savills Research & Consultancy

GRAPH 3 First-floor shopping mall rental index, Q1/2008 – Q1/2017



Source: Savills Research & Consultancy

City-wide shopping mall occupancy rates decreased by 1.7 pts to 93.3% by the end of Q1/2017. Despite leasing demand remaining relatively robust, a slight decline in appetite due to the traditional quiet season with Chinese New Year falling during the period, and more so the low occupancy rates in the newly-launched projects in the Wukesong district, were responsible for the decrease.

Prime areas saw a slight improvement in occupancy rates during the quarter, up 0.5 of a ppt to 94.1%. The performance was largely driven by the Topwin Center in the Sanlitun district, which continued to actively welcome F&B retailers. Strong leasing activity in standout projects such as Joy City in the Xidan district also supported the city-wide performance.

Non-prime markets witnessed a decline during the quarter, largely due to the relatively high vacancy rates seen in newly-opened projects in the Wukesong district. Non-prime occupancy rates dropped by 3.5 pts to 92.0%, while occupancy rates in suburban markets held stable at 95.0% by the end of Q1/2017.

Rents

First-floor shopping mall rents remained largely flat during Q1/2017, increasing by 0.1% QoQ and 2.9% YoY to an average of RMB928.8 per sq m per month. Average prime rents and non-prime rents were stable during the quarter, at RMB1199.4 and RMB702.6 per sq m per month, respectively.

Market outlook

The remainder of 2017 will see the market receive an influx of supply concentrated in non-prime and suburban submarkets. The market is scheduled to see 13 new mid- to high-end shopping malls debut, contributing

TABLE 2
Future project focus, Q1/2017

Project	China World Mall Phase III B (国贸三期B)	WF Central (王府中環)
		
Location	CBD	Wangfujing
Estimated opening date	Q2/2017	Q2/2017
Developer	China World	Hongkong Land
Retail type	Shopping Mall	Shopping Mall
Retail GFA (sq m)	100,000	50,000
Major tenants	Chunk KTV, LeEco flagship, Space Cycle	TBC

Source: Savills Research & Consultancy

a total retail GFA of approximately 1.05 million sq m.

An immense pipeline of new supply will see the market face greater competition in the coming years, causing a greater divergence in performance among different submarkets and projects. It will be essential for landlords to pay more attention to tenant mix strategies and additional service innovations to attract consumers and improve mall performances.

The long-term outlook for Beijing's retail market remains positive, underpinned by rising incomes and continued urbanisation. As the market enters an era of "new retailing" it will be essential for brick-and-mortar stores to continue to evolve their business models. The majority of retailers will need to focus more on enhancing customer experiences and improving operational efficiency through the application of multi-channels and reconstructing traditional retail business models. ■

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