

Briefing Retail sector

July 2017



Image: China World Mall Phase III B, CBD District

SUMMARY

‘New retail’ continues to expand its footprint in the city, blurring the lines between online and offline retail.

- Retail sales increased by 5.1% year-on-year (YoY) to RMB428.36 billion in the first five months of 2017.
- One new shopping mall entered the market in Q2/2017, with China World Mall Phase III B in CBD district contributing approximately 100,000 sq m of new retail GFA.
- City-wide shopping mall occupancy rates increased by 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 93.4% by the end of Q2/2017.
- City-wide shopping mall first-floor rents continued to edge up during the quarter, increasing by 0.3% QoQ, to an average of RMB931.6 sq m per month.
- The remainder of 2017 is expected to see three new mid- to high-end shopping malls debut and contribute a total retail GFA of approximately 240,000 sq m. With the majority of supply to be located in non-prime areas, the market will continue down its path of decentralisation.

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“In the future, it will be essential for retailers to be proactive in adjusting their branding, service and merchandising strategies in order to satisfy ever-changing consumer demands.” Jack Xiong, Savills Research & Consultancy

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➔ Economic overview

Retail sales increased by 5.1% YoY to RMB428.36 billion in the first five months of 2017. Online retail sales continued to record strong growth momentum, registering a 13.1% YoY increase and accounting for 16.8% of total retail sales during the same period.

Supply and stock

One new shopping mall project entered the market in Q2/2017, contributing a total of approximately 100,000 sq m of new retail GFA and

expanding total shopping mall stock to 8.9 million sq m. Total department store stock recorded 2.1 million sq m by the end of the period.

China World Mall Phase III B in the CBD district made its debut during the quarter, contributing 100,000 sq m of retail GFA to the market. The new opening now sees all of the China World buildings linked together into one large complex which is now entirely accessible from the Guomao Station of Metro Lines 1 & 10. The new project's opening has coincided with the launching of the China World Trade Center III B office tower in the same quarter, and is expected to be a welcomed supporting facility and attract footfall from the white collar workers in the area. Spread over eight floors, the mall features a heavy focus on fashion retailers throughout the basement level one up to the third floor, whereas levels four to seven feature a concentration of F&B retailers, which will provide a huge boost to the food scene in the CBD district. Entertainment retailers have also been included in the mix, with a large K Party KTV expected to help drive footfall to the project. Relatively strong pre-commitment rates have seen the mall achieve an occupancy rate of approximately 80%, with the remaining vacant space expected to be absorbed over time.

customers who would otherwise not buy from the regular retail stores, but it also serves as an entry point for certain kinds of customers. Traditional retailers have shown a willingness to explore discount space as they try to rejuvenate slumping sales at their full-price stores. Openings during the quarter included:

-Beichen Shopping Center in the Asia-Olympic district completed renovations and was relaunched as an outlet shopping mall named "Shangpin+". The project held a soft opening in June and was able to secure an occupancy rate of 80%.

-Floral Village Outlet Mall launched in the Fengtai district. The sizable project covers a 151,000 sq m construction area, of which 108,000 sq m is dedicated to retail GFA. The tenant mix includes a variety of prime international and domestic fashion brands, entertainment, recreation and F&B retailers. Looking to target middle- to high-income families, the mall has integrated numerous children's educational and recreational playground facilities.

Demand and occupancy rates

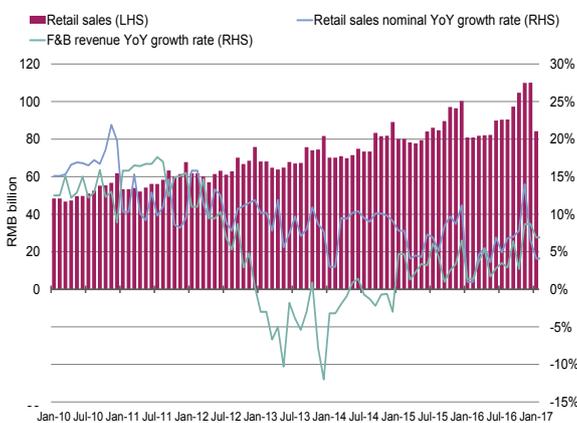
The most active expansions continued to stem from the high footfall generating F&B retailer category, with fashion retailers coming in second, accounting for 33.5% and 28.9% of total leasing demand, respectively. Domestic retailers displayed a stronger appetite during the quarter, dominating 60% of total demand. Demand remained strong from international retailers, however, they continued to show a preference for expansion in prime areas.

'New retail' continues to expand its footprint in the city, merging the lines between online and offline retail. Proactive retailers have already begun to form strategic alliances with key internet players to assist them with their online-to-offline (O2O) initiatives. Partnering with internet companies has granted retailers access to massive traffic sources, along with Big Data and logistic frameworks. Online retailers have also made moves to expand into the bricks-and-mortar business, with activity including:

- He Ma Xian Sheng (盒马鲜生) from the Alibaba Group, a vertical online retailer specialising in fresh produce, launched its first store in City Mall (新城市广场) in the Chaoyang district.

GRAPH 1

Retail sales, Jan 2010 – May 2017



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

TABLE 1

New shopping mall supply in Q2/2017

Project	China World Mall Phase III B (国贸三期B)
	
Location	CBD
Launch date	Q2/2017
Developer	Kerry Properties / Shimao Group
Retail type	Shopping Mall
Retail GFA (sq m)	100,000
Major tenants	Din Tai Fung, COS, K Party KTV, Space Cycle

Source: Savills Research & Consultancy

Department stores across the city continued to struggle to survive in the increasingly challenging retail market. Parkson, in the Changying district, exited the market, reducing total department store stock by 35,000 sq m to 2.1 million sq m by the end of Q2/2017. The Malaysian-based Parkson was an early foreign entrant to the China market, opening their first department store in the country in 1994 in Beijing on Fuxingmen Road, which is now their only remaining department store in the city.

While some shopping malls and departments stores continue to struggle to secure tenants and compete with online shopping, at least one part of the bricks-and-mortar retail industry appears to be growing – outlet malls. These centres pitch themselves as shopping destinations for cost- and brand-conscious consumers. Developers appear to be targeting locations with large residential populations and growing disposable income households. When positioned properly, outlet channels can bring in not only incremental dollars from

- Bravo YH announced they will launch their first Super Species store in Beijing's Shijingshan district later this year. The fresh produce specialty store merges APP shopping, in-store shopping and dining experiences.

- Meituan committed to opening an O2O store, Zhang Yu Sheng Xian (掌鱼生鲜) in Botai International Plaza in the Wangjing district.

Experiential retailers continued to rise in popularity. Looking to tap into a burgeoning middle class and a rapidly-growing health conscious attitude in the city, sports retailers have begun to offer concept stores where consumers can come and physically interact with the brand and experience the products first-hand. Notable activity included:

- Adidas launched a temporary basketball experience centre in the plaza of Taikoo Li Sanlitun (South).

- A Nike & Jordan basketball experience centre was also set up in The Place in the CBD district.

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

- Ole Supermarket in the Ginza Mall in the Dongzhimen district closed its doors during the period.

- The Beijing Hualian Group announced the disposal of their BHG Boutique Supermarket branch to Kaida Bochuan Holdings (凯大铂川) through a 100% equity transaction. The deal will see BHG continue to retain ownership and operate their other supermarket branches.

- One City Shopping Mall, located in the Wangjing district, was acquired by Ping An Trust and subsequently closed.

City-wide shopping mall occupancy rates increased by 0.1 of a ppt QoQ, to 93.4% by the end of Q2/2017.

Prime areas saw a slight decline in occupancy rates during the quarter, down 0.1 of a ppt QoQ to 94.0%, albeit up 1.0 ppt YoY. Prime markets continued to attract retailers, with a number of projects showing improved performance during the quarter. The Place, in the CBD district, finished renovations of their third and fourth floors, while Beijing

APM in the Wangfujing district also posted improved occupancy. Despite improved performance by a number of malls, vacant space in the newly-opened China World Mall Phase III B in the CBD district offset an overall growth.

Non-prime areas saw a slight improvement in occupancy rates during the quarter, up 0.3 of a ppt QoQ to 92.3%. The growth was largely driven by improved occupancy in the recently launched HI-UP in the Wukesong district.

Occupancy rates in suburban markets held stable at 95.0% by the end of Q2/2017.

Rents

City-wide shopping mall first-floor rents continued to edge up during Q2/2017, increasing by 0.3% QoQ and 2.1% YoY to an average of RMB931.6 sq m per month.

Average prime rents increased by 0.3% QoQ and 1.0% YoY to RMB1,203 per sq m by the end of Q2/2017.

Non-prime rents increased by 0.5% QoQ and 3.2% YoY to RMB705 per sq m by the end of Q2/2017.

Market outlook

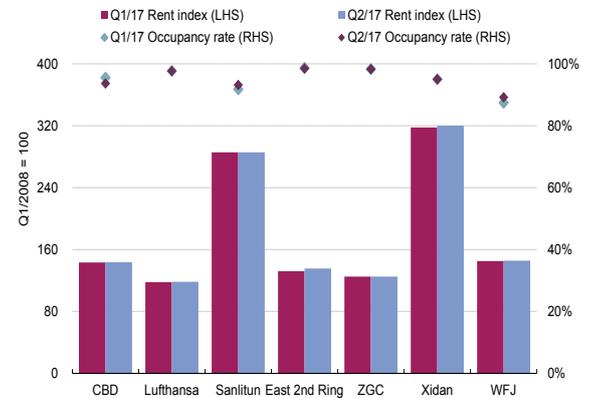
The remainder of 2017 is expected to see three new mid- to high-end shopping malls debut and contribute a total retail GFA of approximately 240,000 sq m. With the majority of supply to be located in non-prime areas, the market will continue down its path of decentralisation.

According to announced strategic plans, some leading real estate developers will pay increased attention to developing retail projects in non-prime areas over the next three years. For example, Huayuan Property and COFCO Group recently announced a strategic collaboration which will see them develop a new Joy City shopping mall in the far west of Beijing under an asset-light model, and Longfor Group will launch a new Paradise Walk project in Liangxiang in the Fangshan district next year. With a number of quality projects planned to launch in various districts around the city, the development of Beijing's retail market will continue down its path of decentralisation.

Demand for traditional high street shops from mid- to high-end brands is

GRAPH 2

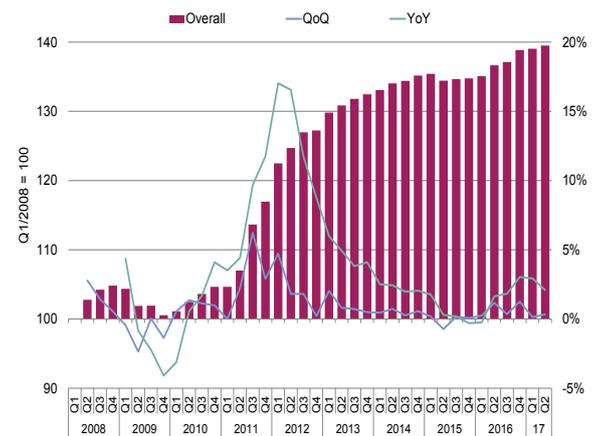
Major retail area vacancy rates and rent index, Q1/2017 vs. Q2/2017



Source: Savills Research & Consultancy

GRAPH 3

First-floor shopping mall rental index, Q1/2008 – Q2/2017



Source: Savills Research & Consultancy

expected to remain robust in Beijing. It is anticipated the market will continue to enjoy first-mover advantage from retailers looking to enter the Northern China region. Given this, city-wide shopping mall first-floor rents have the potential to climb.

'New retail' will continue to rise in prominence. Retailers will continue to accelerate the development of their O2O strategies, with a growing emphasis on the application of big data technology to improve consumers' shopping experiences. On the landlord side, it will be essential to pay heightened attention to tenant mix strategies and additional service innovations to attract consumers and improve mall performances. ■

TABLE 2
Future project focus, 2H/2017

Project	WF Central	Xitieying Wanda Plaza	Colourful Land
			
Location	Wangfujing	Fengtai	Daxing
Estimated launch date	Q4/2017	Q4/2017	Q4/2017
Developer	Hongkong Land	Wanda Group	Han's Group
Retail type	Shopping Mall	Shopping Mall	Shopping Mall
Retail GFA (sq m)	50,000	124,000	65,000
Major tenants	TBC	TBC	CGV Cinemas

Source: Savills Research & Consultancy

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