

# Briefing Retail sector

November 2017



Image: Hopson One, Chaoyang District

## SUMMARY

Millennials are becoming a driving force in the retail market. Comparatively higher incomes and less of an inclination to save compared with the older generation, means that this young population has become a key target of retailers.

- Retail sales increased 5.4% year-on-year (YoY) to RMB817.49 billion in the first nine months of 2017.
- No new projects were launched on the market in Q3/2017. As a result, total shopping mall and department store stock remained at 8.9 million sq m and 2.1 million sq m, respectively.
- City-wide shopping mall occupancy rates increased by 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 93.7%.

- City-wide shopping mall first floor rents continued to edge up during Q3/2017, increasing by 0.6% QoQ to an average of RMB949.2 sq m per month.
- It is expected that the market will see five new mid-to-high-end projects debut during Q4/2017, contributing a total retail GFA of approximately 420,000 sq m. With the majority of supply to be located in non-prime areas the market will continue to decentralise.

“More landlords are expected to reconfigure their retail interiors and introduce themed marketing campaigns in their shopping malls to differentiate themselves from competitors.”  
Jack Xiong, Savills Research & Consultancy

➔ **Economic overview**

Retail sales increased 5.4% YoY to RMB817.49 billion in the first nine months of 2017. Online retail sales continued to record strong growth, registering an 11.7% YoY increase to RMB150.48 billion, which accounted for 18.4% of total retail sales, during the same period.

**Supply and stock**

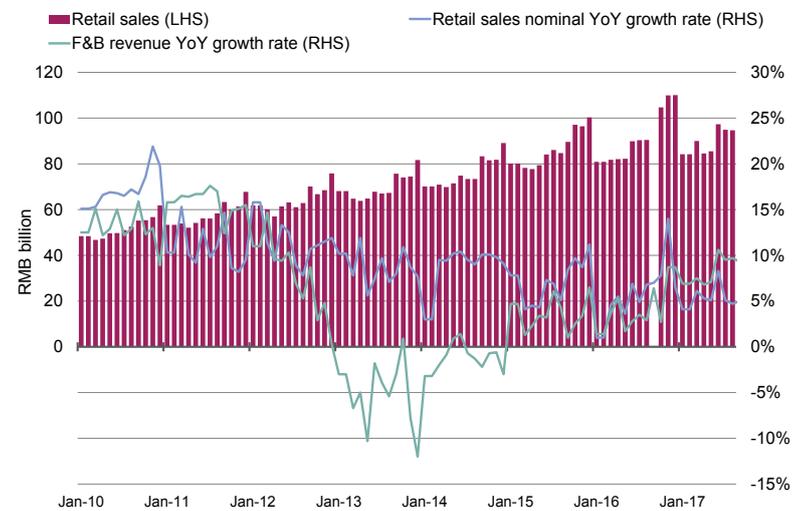
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**Demand and Occupancy Rates**

Leasing demand was strong during the quarter, with the most active expansions continuing to stem from the high footfall generating F&B retailer category and fashion retailers, accounting for 36% and 29% of total leasing demand. Domestic retailers dominated expansion accounting for 53% of all leasing transactions during the period. Meanwhile, strong international retailer demand remained and continued to display a strong preference for prime submarkets, which accounted for 67% of total international retailer expansions, during the quarter.

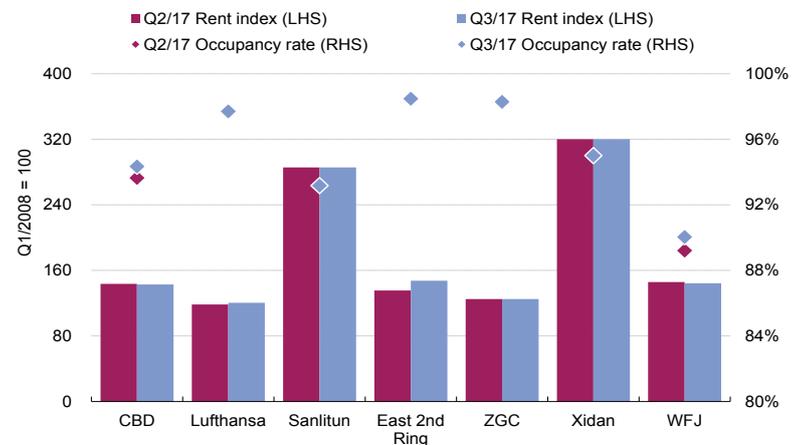
Millennials continue to become a driving force of consumption in the retail market. Comparatively higher incomes and less of an inclination towards savings, than the older generation, have seen this young population become a key target of retailers. Fast technology adopters, this demographic have shown a greater willingness to shop through mobile devices, as well as have their purchasing decisions influenced by social media channels. The rapid rise of social media has seen a new phenomenon begin to develop in the F&B sector. Viral marketing and the importance millennials place on showing they are on trend and unique, has seen the recent birth of a number of internet-celebrity (网红)

GRAPH 1 **Retail Sales, Jan 2010 – September 2017**



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

GRAPH 2 **Major Retail Area Vacancy Rates and Rent Index, Q2/2017 vs. Q3/2017**



Source: Savills Research & Consultancy

restaurants. These operators garner a huge following and public attention through social media, which can often see patrons wait for hours before being seated. Openings during the quarter included:

- Hey Tea (喜茶), a Guangdong based milk tea store, opened its first two shops in Taikoo Li Sanlitun and Joy City (Chaoyang).
- Spacelab, an unattended service staff restaurant, which delivers food on a multi spiral rollercoaster track system,

launched its first store in China in SOLANA in Lufthansa district.

The overall retail market continues to adopt a greater focus on experiential retail. This, combined with a growing interest in recreational sports has seen some retailers look to provide physical experiences in malls. Activities during the quarter included:

- Leski, an indoor skiing centre, committed to a large space in Beijing Mall, in the Wangfujing district.

- Spiderman Climbing VR Experience Store, an indoor virtual reality/rock climbing crossover, launched in Taikoo Li Sanlitun.

Looking to differentiate themselves from the homogeneity that is often prevalent with so much competition, in a large city like Beijing, a number of retailers' and landlords have been looking to provide themed retail experiences. The strategy focuses on driving footfall by providing a unique brand and image for which the consumer can identify with. Activity during the period included:

- We Bare Bears, an American animated sitcom, held a brand exhibition in Beijing Raffles City in East Second Ring Road in August.

- Kumamon Café, themed off the Japanese internet cartoon sensation, committed to opening its first store in Beijing APM in Wangfujing district.

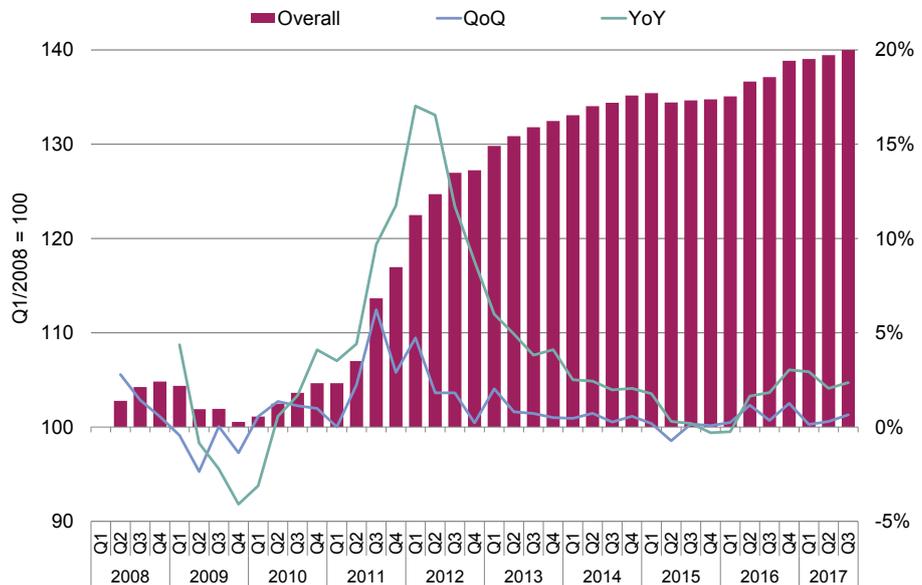
- Mahua FunAge, a production company best known for popular comedy stage shows, announced it will be launching its first theatre in a shopping mall in 2019. Along with the space being used to perform their stage show, it plans to include a Mahua FunAge themed drama training school and café.

- YOUNG STREET, a youth themed street in Joy City in Xidan district, softly opened in September. The retail centre is located on the ninth floor of the project and is home to 29 youth targeting selected retailers, which occupy a total retail GFA of 3,000 sq m. In addition, the youth street created its own cartoon character, NINEY, to help identify with consumers.

City-wide shopping mall occupancy rates increased by 0.3 of a ppt QoQ, to 93.7% by the end of Q3/2017.

Prime areas saw an increase in occupancy rates during the quarter, up 0.4 of a ppt QoQ to 94.4%. Prime markets continued to attract retailers, with a number of projects showing

GRAPH 3 **First-Floor Shopping Mall Rental Index, Q1/2008 – Q3/2017**



Source: Savills Research & Consultancy

improved performance during the quarter. The improved performance was led by the Beijing Mall, in Wangfujing, and the newly-opened China World Mall Phase III B, in the CBD district.

Non-prime areas also saw an improvement in occupancy rates, during the quarter, up 0.5 of a ppt QoQ to 92.8%. The growth was largely driven by improved occupancy in the recently launched HI-UP, in the Wukesong district, and the completion of tenant adjustment in Xin'ao Shopping Centre, in Asia-Olympic district.

Occupancy rates in suburban markets held stable at 95.0% in Q3/2017.

**Rents**

City-wide shopping mall first-floor rents continued to edge up during Q3/2017, increasing by 0.6% QoQ and 2.4% YoY to an average of RMB949.2 sq m per month.

Average prime rents increased by 0.2% QoQ and 1.0% YoY to RMB1,224.6 per sq m in Q3/2017.

Non-prime rents increased by 1.3% QoQ and 3.7% YoY to RMB718.5 per sq m by the end of Q3/2017.

**Market outlook**

It is expected the market will see five new mid-to-high-end projects debut, contributing a total retail GFA of approximately 420,000 sq m during Q4/2017. With the majority of supply to be located in non-prime areas the market will continue to decentralise.

F&B and fashion retailers will continue to be the key drivers of leasing demand, backed largely by a rapidly-growing health-conscious consumer movement, for light food and sportswear. Large retailers, such as traditional supermarkets, are expected to make moves to evolve their business models and adopt a multi-channel approach.

More landlords are expected to reconfigure their retail interiors and have themed marketing campaigns, in their shopping malls, to differentiate themselves from competitors. Aiming to increase footfall and visibility, strategies, such as community and special events are expected to increase. ■

TABLE 2  
**Future project focus, Q4/2017**

Project	WF Central	Xitieying Wanda Plaza	Hopson One
			
Location	Wangfujing	Fengtai	Chaoyang
Estimated launch date	Hong Kong Land	Wanda Group	Hopson Group
Developer	Shopping Mall	Shopping Mall	Shopping Mall
Retail type	50,000	124,000	190,000
Retail GFA (sq m)	TBC	TBC	TBC
Major tenants	TBC	TBC	CGV Cinemas

Source: Savills Research & Consultancy

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