

Briefing Retail sector

January 2018



Image: WF Central, Wangfujing

SUMMARY

Four new projects were launched onto the retail market in Q4/2017, resulting in a decline in the overall occupancy rate.

- Four new projects launched in Q4/2017, contributing a total of 699,400 sq m of new retail GFA. As a result, total shopping mall stock increased to 9.62 million sq m, while department store stock remained at 2.1 million sq m.
- City-wide shopping mall occupancy rates declined by 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) to 93%, down by 2 ppts year-on-year (YoY).
- City-wide shopping mall first floor rents registered a growth of 0.4% QoQ to an average of RMB956.1 per sq m per month in Q4/2017, up by 1.6% YoY.
- It is expected that the market will see the debut of three new mid-to-high-end projects during Q1/2018, contributing a total retail GFA of approximately 190,000 sq m.

“The integration of online and offline retail channels will continue to emerge under the “new retail” movement. A greater number of retailers will explore crossover and new marketing initiatives as they aim to create a sense of freshness and raise consumer awareness of their brands.”

Jack Xiong, Savills Research & Consultancy

➔ **Market Overview**

A strong preference for prime submarkets by both domestic and international retailers pushed the occupancy rate in prime areas up by 0.4 of a ppt QoQ and 1.2 ppts YoY to 94.8%. Large amounts of new supply in non-prime areas resulted in the occupancy rate remaining largely flat during the quarter, up by only 0.2 of a ppt QoQ to 93.0%, although down by 2.5 ppts YoY. Occupancy rates in suburban markets declined by 3.3 ppts both QoQ and YoY to 91.7%.

City-wide shopping mall first-floor rents continued to edge up during Q4/2017, increasing by 0.4% QoQ and 1.6% YoY to an average of RMB956.1 per sq m per month. Both average prime and non-prime rents recorded positive growth.

Seven shopping mall projects entered the market in 2017, contributing a total of 1.2 million sq m of new supply. The majority of new supply was located in non-prime areas, accounting for approximately 60% of the total. Total shopping mall stock increased to 9.62 million sq m. No new department store projects were launched on the market in 2017. However a number closed over the period, including Junefield Sogo Department Store, Parkson in Changying Street and Ito Yokado-Qilizhuang in the Fengtai district. As a result, department store stock declined to 2.1 million sq m in Q4/2017.

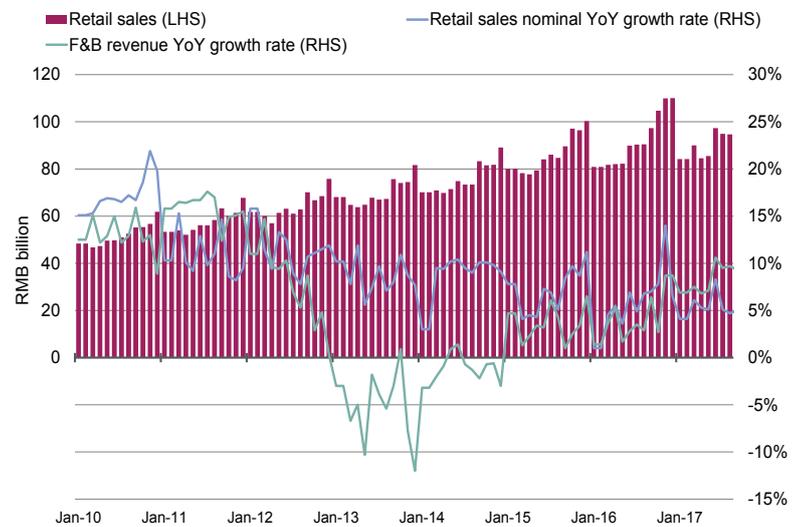
Economic Overview

Retail sales increased 5.7% YoY to RMB1,047.4 billion in the first 11 months of 2017. Online retail sales continued to record strong growth, registering an 11.6% YoY increase to RMB205.45 billion, which accounted for 19.6% of total retail sales, during the same period.

Supply and Stock

Four new projects launched on the market in Q4/2017, contributing a

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



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

total of 699,400 sq m of new retail GFA. As a result, total shopping mall stock increased to 9.62 million sq m, while department store stock remained at 2.1 million sq m.

Hopson One

Hopson One, the first retail project in Beijing under Hopson Group, entered the market adding 176,000 sq m of retail GFA. The project is located adjacent to Jiulongshan Station of Metro Line 14 in Chaoyang district. Strong pre-commitment rates witnessed the mall achieve an occupancy rate of approximately 80% upon opening. Major tenants include Uniqlo, Zara and Hoyts Cinema, the high-end branch of Wanda Cinema.

WF Central

WF Central is the first large-scale flagship retail project by HongKong Land in Beijing. Located in Wangfujing district, the project has contributed an additional 75,000 sq m of retail GFA to the market. The high quality of the project appealed to a dynamic array of well renowned international retailers. Notable leases include; Victoria's Secret, who launched their fourth global flagship store; and a number of brands making their debut

in Beijing, such as, Links of London, Café Landmark, Jade Garden and The Cheesecake Factory.

Xitieying Wanda Plaza

Xitieying Wanda Plaza, the sixth Wanda Plaza established by Wanda Group in Beijing, entered the market and contributed a total of 108,400 sq m of GFA. The project was fully occupied upon its opening. Looking to fill the consumption gap of the rapidly maturing residential community and surrounding student population, the project has focused on introducing children's educational and recreational facilities, as well as some experiential stores.

FC Plaza Holiday Life City

FC Plaza Holiday Life City debuted in Jiugong Town, Daxing district, adding 340,000 sq m of GFA to the market. Strong pre-commitment rates have seen the mall achieve an occupancy rate of approximately 80%. The tenant mix includes a range of fashion brands, F&B retailers and some experiential stores. Being one of the largest projects in southern Beijing, along with having a higher positioning than the other surrounding lower-end projects, it is expected that the project will

emerge as a landmark shopping mall in the area.

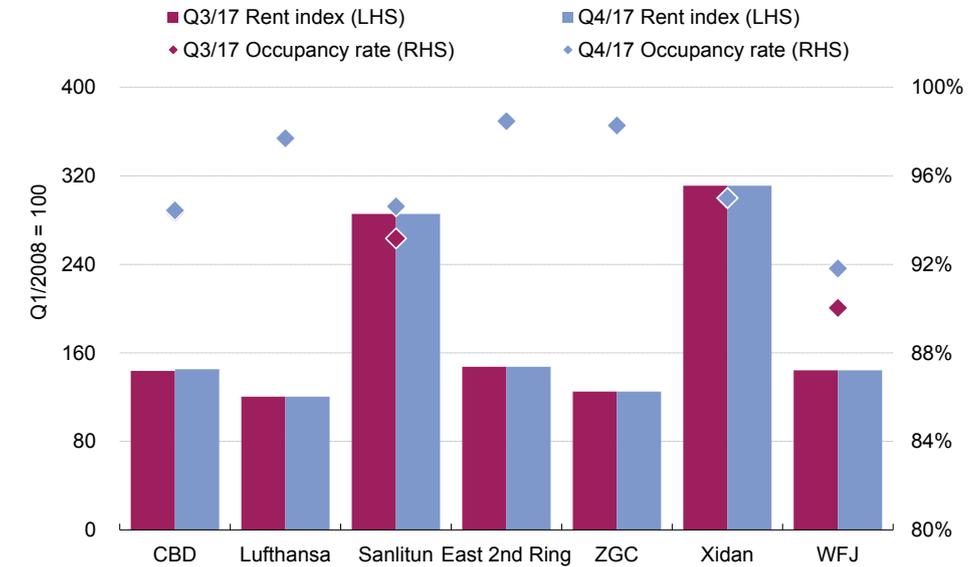
Demand and Occupancy Rates

Leasing demand was strong in Q4/2017, with the most active expansions continuing to stem from the high footfall generating fashion and F&B retailers, accounting for 35% and 33% of total leasing demand respectively. Both domestic and international retailers displayed strong appetite in Q4/2017, with the demand being driven by domestic F&B and international fashion retailers. International retailers continued to display a strong preference for prime submarkets, accounting for approximately 70% of total international retailer expansions and new openings.

The development and penetration of the internet, continues to see retailers showing a greater willingness to partner with internet companies as they look to attract more attention from young consumers. The majority of cooperation is currently being carried out in the form of pop-up stores and offline experiential stores. Offline experiential stores and activities provide a platform for consumers to interact with a brand and build an emotional connection which can potentially lead to online sales. Activities during the period included:

- Zhihu.com (知乎), a domestic question-and-answer website, opened a pop-up store branded “Don’t Know Clinic” (不知道诊所) in Taikoo Li Sanlitun in November. The display offered a variety of themes, with the intention of making knowledge sharing more visual and entertaining.
- Tmall.com, a dedicated B2C online retail platform, launched a pop-up store in Topwin Centre in Sanlitun district. The project opened in early November in the lead up to Alibaba’s

GRAPH 2 **Major Retail Area Vacancy Rates and Rent Index, Q3/2017 vs Q4/2017**



Source: Savills Research & Consultancy

11.11 Global Shopping Festival. A variety of family scenes built around products purchasable from Tmall were on show, with QR codes on display for consumers to scan and place orders online. The initiative looked to create a physical interaction with consumers and drive online consumption.

- Mafengwo.com, an online travel platform, recently held an indoor exhibition dubbed “A Tour of the World’s Most Popular Walls” (攻略全世界网红墙). The display, which was held in Taikoo Li South in Sanlitun, featured thirteen of the world’s most popular landmark walls posted on social media, such as the Berlin Wall in Germany and Wall of Love in Paris. The “tourists” were able to scan QR codes to learn more about the history of each wall and travel tips.

The trend of consumption upgrade continues to see more landlords pay greater attention to introducing a better balance of art, cultural and commercial elements in their projects. Creating the right atmosphere can attract a larger group of consumers, particularly

the younger generation, who place a greater emphasis on the experiential aspect of shopping. Looking to avoid being branded as homogenous, recent activity in projects included:

- SKP Rendez-Vous, a self-operated bookstore featuring a café, restaurant and art & cultural space, opened up on the fourth floor of SKP Beijing in November.
- “The Art of Healing”, an art exhibition by X+Q Art, was held in Parkview Green in November.
- Swire Properties, the Hong Kong developer of Taikoo Li Sanlitun, signed a long-term lease of the Yashow Market from owner Beijing Kuntai Real Estate Development Group in December. The agreement will see Swire renovate the project with an art museum-inspired design theme and relaunch as Taikoo Li West.

Brand crossover continues to gain popularity. Activity in Q4/2017 has seen a number of fast fashion brands develop their own beauty brands, as

well as some beauty brands explore the incorporation of F&B elements.

- Kiehl's, an American cosmetics brand retailer, launched their first coffee shop in mainland China in Taikoo Li South in Sanlitun district in December.

- Cinker Cinema, a boutique movie theatre with a restaurant and bar, settled in Beijing Raffles City in Dongzhimen.

- Yan Ji You, a bookstore offering both reading and café space, opened in WF Central in Wangfujing district.

- Greybox, a boutique coffee brand created by the high-end flower brand Roseonly, opened its third store in Beijing in China Central Mall in the CBD district in October.

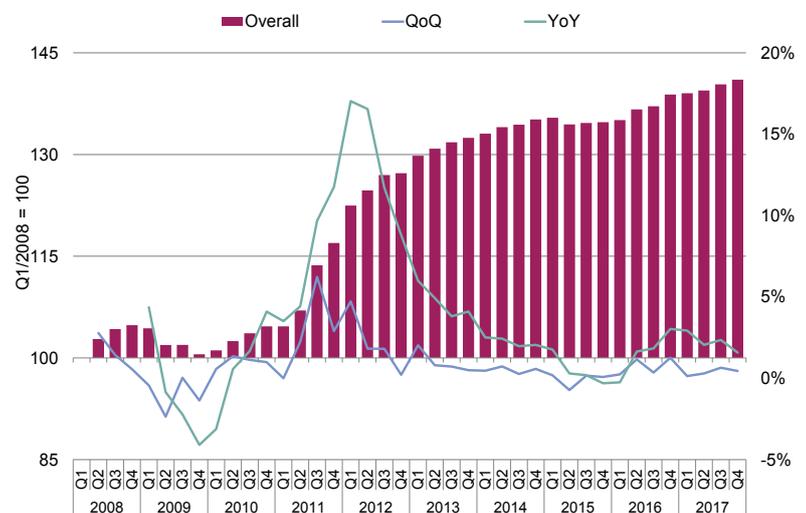
An influx of supply saw the city-wide shopping mall occupancy rate decrease slightly by 0.8 of a ppt QoQ to 93.0% by the end of Q4/2017, down by 2 ppts YoY.

Retailers continued to display a strong preference for prime submarkets during Q4/2017, with the occupancy rate up 0.4 of a ppt QoQ and 1.2 ppts YoY to 94.8%. Wangfujing and Sanlitun precincts showed the greatest improvement in performance. The increased occupancy was driven by Beijing Mall in Wangfujing district and the new lease by famous co-working space provider, WeWork in Taikoo Li North in Sanlitun.

Non-prime areas received two new projects during Q4/2017, with Hopson One and Xitieying Wanda Plaza both entering the market. Strong pre-leasing performance in both projects pushed the occupancy rate up 0.2 of a ppt QoQ to 93.0%, although down by 2.5% YoY.

Occupancy rates in suburban markets decreased 3.3 ppts QoQ and YoY to

GRAPH 3 **First-floor Shopping Mall Rental Index, Q1/2008 – Q4/2017**



Source: Savills Research & Consultancy

91.7% in Q4/2017, with vacancies in the newly launched FC Plaza Holiday Life City, responsible for the decline.

Rents

City-wide shopping mall first-floor rents continued to edge up during Q4/2017, increasing by 0.4% QoQ and 1.6 % YoY to an average of RMB956.1 per sq m per month.

Average prime rents increased by 0.7% QoQ and 1.1% YoY to RMB1,227.6 per sq m in Q4/2017.

Non-prime rents increased by 0.2% QoQ and 2.3% YoY to RMB720 per sq m in Q4/2017.

Market Outlook

The market is expected to see three new mid-to-high-end projects debut in Q1/2018, contributing a total GFA of approximately 190,000 sq m.

The trend of consumption upgrade will continue to see more landlords introduce distinctive elements to their projects, such as unique boutique retailers and themes to their shopping malls as they look to differentiate

themselves from competitors. In addition to this, astute operators will look to enhance consumer experiences through improving mall interiors and introducing intelligent retail services.

The integration of online and offline retail channels will continue to emerge under the “new retail” movement. A greater number of retailers will explore crossover and new marketing initiatives as they aim to create a sense of freshness and attract the attention of more consumers to their brands. ■

TABLE 1
Project Focus, Q1/2018

Project	ID Mall (Fangyuanli)	Uni Fun	Emperor Group Centre
			
Location	Others (East Fourth Ring Road)	Asia-Olympic	CBD
Developer	CITIC Capital	China Overseas Real Estate	Emperor Group
Retail type	Shopping Mall	Shopping Mall	Retail Podium
Retail GFA (sq m)	126,000	35,000	25,000
Notes	Purchased by CITIC Capital and converted to ID Mall (Fangyuanli). Previously positioned as Metro City Shopping Mall	Retail component of China Overseas International Centre Complex.	

Source: Savills Research & Consultancy

Please contact us for further information

Research



James Macdonald
 Director
 China
 +8621 6391 6688
james.macdonald@savills.com.cn

Central Management



Anthony McQuade
 Managing Director
 North China
 +8610 5925 2002
anthony.mcquade@savills.com.cn

Research & Consultancy



Jack Xiong
 Director
 Beijing
 +8610 5925 2042
jack.xiong@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.