

Briefing Retail sector

April 2018



Image: UniFANs, Asia-Olympic

SUMMARY

The first quarter of 2018 continued to see the accelerating transformation of the offline retail market through innovation, renovation and re-positioning. Meanwhile, instead of investing in retail transformation, some landlords have opted to convert their buildings to offices.

- One new project, UniFANs, in the Asia-Olympic area was launched in Q1/2018, contributing 35,000 sq m of retail GFA to the market. As a result, total shopping mall stock reached 9.65 million sq m in Q1/2018, while department store stock remained at 2.1 million sq m.
- City-wide shopping mall occupancy rates increased by 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 93% in Q1/2018.

- City-wide shopping mall first-floor rents registered a growth of 0.7% QoQ to an average of RMB956.2 per sq m per month in Q1/2018, up by 2.1% year-on-year (YoY).
- It is expected that the market will see the debut of three new mid-to-high-end projects in Q2/2018, contributing a total retail GFA of approximately 120,000 sq m.

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“E-tailers will increase and deepen cooperation with offline retailers as well as developers. These moves will fuel the integration of online and offline channels as well as logistic services to enhance the overall shopping experience.” Jack Xiong, Savills Research & Consultancy

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➔ **Economic overview**

Retail sales increased by 5.8% YoY to RMB174.2 billion in the first two months of 2018, largely stimulated by the Spring Festival holiday. Total retail sales of consumer goods reached RMB156.4 billion, while the F&B industry accounted for RMB17.9 billion. Online retail sales continued to record strong growth, registering a 22% YoY increase to RMB37.3 billion, and accounting for 21.4% of total retail sales.

Supply and stock

The retail market received only one new project in Q1/2018, with UniFANs in the Asia-Olympic area contributing 35,000 sq m GFA. As a result, total shopping mall stock increased to 9.65 million sq m, while department store stock remained at 2.1 million sq m.

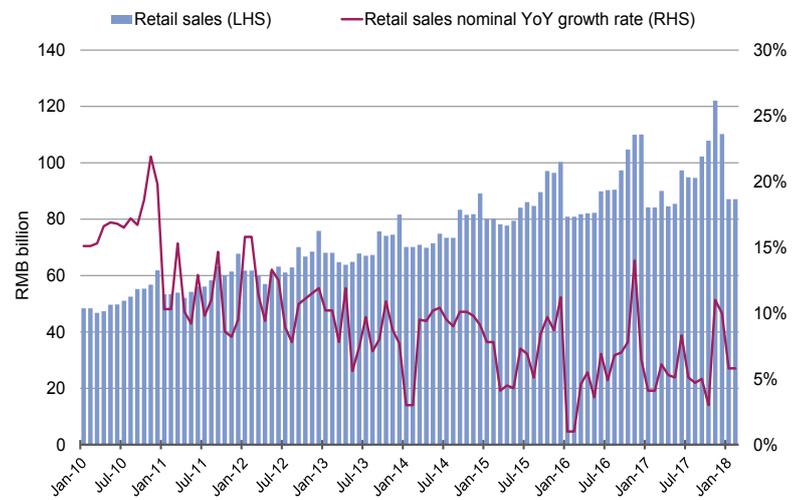
UniFANs is the retail component of the mixed-use China Overseas International Centre and is the first retail project under China Overseas' UniFANs banner in Beijing. The project covers an area of 35,000 sq m across six floors (B1 to L5). Strong pre-commitment rates saw the mall achieve an occupancy rate of approximately 80% upon opening. Major tenants include CITIC Books, Starbucks Reserve, Super Species and Huaxia Cinemas. While the Asia-Olympic precinct already accommodates a number of Grade A office projects, it currently lacks large and high-quality retail projects. The new project is welcomed and will be another destination for the surrounding working population.

Project upgrading, conversion and transformation

In response to consumption upgrade demand and changing consumer behaviour, the transformation of the offline retail market has accelerated through innovation, renovation and re-positioning. Meanwhile, some landlords who have opted not to invest in retail transformation are looking to convert their malls, either part or all of the property, into other uses.

Beijing Cultural Silicon Company recently took over Solana Wukesong. While detailed plans have not yet been

GRAPH 1 **Retail sales, Jan 2010 – Feb 2018**



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

revealed, the project is expected to undergo a significant reconfiguration. Solana took over the management of the building in early 2017, and prior to this it was branded as Charter Shopping Centre. Despite Solana's efforts to reposition the mall by increasing the proportion of child-related and sports retailers, and targeting family units, the mall still experienced high vacancy rates, which made it challenging for Solana to achieve positive results.

Beicheng Shopping Centre in the Asia-Olympic area closed in January to undergo a tenant-mix adjustment. In addition, Hualian Anzhen in the same area announced that it will suspend operations in April for renovations. The mall is now entirely vacant except for Hualian Supermarket, which is still operating.

Plans are in place for parts of Yintai In88 in the Wangfujing area to convert into office space. Retailers on the upper floors have already withdrawn, and co-working operator Kr Space has committed to a large space in the project.

Demand and occupancy rates

Leasing demand was strong in Q1/2018, with the most active expansions continuing to stem from the high-footfall generators - fashion

and F&B retailers – which accounted for 32% and 27% respectively of total leasing demand. Domestic retailers displayed a strong appetite, accounting for 60% of the total leasing demand. More than half of international retailers continue to prefer locations in prime submarkets, where the majority of demand was driven by the F&B and fashion sectors.

As the growth rate of new internet users slows and online profit margins shrink, retailers can no longer rely solely on online retail platforms. Besides, consumers are increasingly prioritising the shopping experience. This has made the integration of online and offline retail an inevitable trend. Looking to capitalise on this trend, IT unicorns have actively increased their investment in offline retail companies with the aim to upgrade their value chains and achieve strategic and capital targets. These include:

- Easy Home announced in February that it had received a total investment of RMB13 billion, of which RMB5.45 billion was from Alibaba and its affiliated companies. The contribution from Alibaba is equivalent to a 15% share in Easy Home.
- Tencent purchased a 5.31% stake in Heilan Home for a total consideration of RMB2.5 billion in February 2018.

Pop-up stores, which often revolve around a certain theme, can help retailers to showcase their products offline and receive face-to-face consumer feedback. The trend has emerged as one of the most favoured forms of brand marketing with a number of retailers opening pop-up stores to promote their new seasonal products in Q1/2018. Recent activities included:

- Louis Vuitton opened a Hawaii themed pop-up store in Beijing SKP in

CBD in January to promote its new line of men's clothing and bags.

- “Prada Spirit” was launched in Beijing SKP in February. The space featured an exclusive selection of goods and resembled a traditional Italian café.
- Yves Saint Laurent opened a pop-up store for four days in Taikoo Li Sanlitun. The store looked to promote new products and the opening of its online Tmall store. The company created an

app for its beauty line which allowed users to virtually enter the pop-up store before it opened to the public. Those who were excited about the store could book an appointment to skip the line, an effective way to enhance the brand experience.

City-wide shopping mall occupancy rates increased by 0.1 of a ppt QoQ to 93% in Q1/2018.

Prime areas saw an increase in occupancy rates in Q1/2018, up 0.3 of a ppt QoQ to 95%. The growth was largely driven by the opening of multi-brand retailer Dover Street Market (DSM) in Taikoo Li Sanlitun. This is the first DSM - part of the innovative Commes des Garçons group - to open in China.

Non-prime areas saw occupancy rates remain largely stable in Q1/2018, up 0.1 of a ppt QoQ to 93.1%. A small level of new supply with good take-up level has slightly improved the area's occupancy rates.

Occupancy rates in suburban markets held stable at 91.7% in Q1/2018.

Online and offline retailers are aggressively deploying new business models. 7Fresh, the offline fresh-food store operated by JD.com, opened its second store in Beijing in the Dream Port Living Mall in Haidian district. Meanwhile, Yonghui Super Species opened its third outlet in the city at Times Paradise Walk in Daxing district. The opening is also the brand's first standalone store in Beijing.

Rents

City-wide shopping mall first-floor rents registered a growth of 0.7% QoQ to hit an average of RMB956.2 per sq m per month in Q1/2018, up by 2.1% YoY.

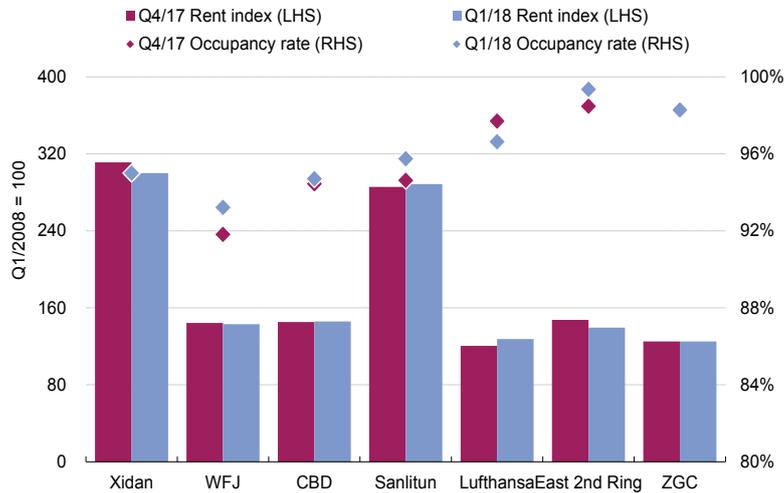
Average prime rents increased by 1.2% QoQ and 2.2% YoY to RMB1,230.3 per sq m in Q1/2018.

Non-prime rents increased by 0.3% QoQ and 2.4% YoY to RMB717.5 per sq m in Q1/2018.

Market outlook

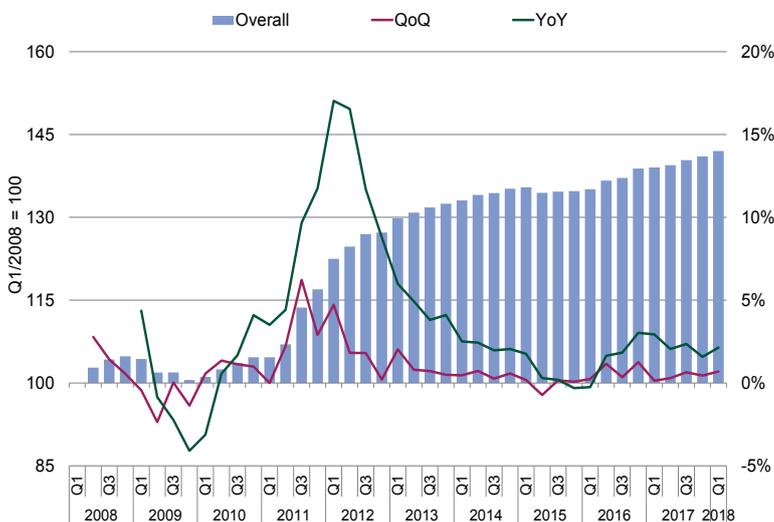
The market is expected to see three new mid-to-high-end projects debut

GRAPH 2 Major retail area occupancy rates and rent index, Q4/2017 vs Q1/2018



Source: Savills Research & Consultancy

GRAPH 3 First-floor shopping mall rental index, Q1/2008 – Q1/2018



Source: Savills Research & Consultancy

in Q2/2018, contributing a total GFA of approximately 120,000 sq m.

E-commerce retailers will strengthen cooperation with offline retailers as well as developers. The moves will increase and deepen integration of

offline and online channels as well as logistic services to enhance the overall shopping experience. COFCO Group and JD.com recently announced a strategic agreement that will see the two cooperate in various ways to foster retail innovation.

“New retail” will continue to emerge and evolve in 2018. New technology will serve as the backbone to fuel this transformation. ■

TABLE 1
Project Focus, Q2/2018

Project	Xintongbai Shopping Mall	Emperor Group Centre	Kaisa Plaza
			
Location	Tongzhou	CBD	CBD
Developer	Xintongbai Retail	Emperor Group	Kaisa Group
Retail type	Shopping mall	Retail podium	Retail podium
Retail GFA (sq m)	55,000	25,000	40,000

Source: Savills Research & Consultancy

Please contact us for further information

Research



James Macdonald
Senior 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

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