

Briefing Retail sector

October 2018



Image: Longfor Paradise Walk – Fangshan Fangshan District

SUMMARY

Only one new project launched in Q3/2018. The overall retail market continued to maintain its stable performance, with marginal growth registered in both occupancy and rental levels.

- Only one new project was launched in Q3/2018, with Longfor Paradise Walk – Fangshan making its debut. As a result, total shopping mall stock increased to 9.83 million sq m, while department store stock remained at 2.1 million sq m.

- The city-wide shopping mall average occupancy rate increased by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 93.3% by the end of Q3/2018, although the rate was down 0.4 of a ppt year-on-year (YoY).

- City-wide shopping mall first-floor rents reached an average of RMB940.7 per sq m per month by the end of Q3/2018, with the rental index registering a growth of 1.2% QoQ and 2.7% YoY.

- Beijing's retail market will see the debut of two new mid- to high-end shopping mall projects in Q4/2018, contributing a total GFA of approximately 326,000 sq m.

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“The economic slowdown has seen consumers become increasingly selective in their purchasing decisions. Retailers will need to adjust their service and product offerings in order to attract and meet upgraded consumer demand.” Jack Xiong, Savills Research & Consultancy

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➔ **Economic overview**

Retail sales were up 4.4% YoY to RMB735.6 billion in the first eight months of 2018. Online retail sales increased by 19.6% YoY to RMB151.2 billion. Total retail sales of consumer goods were up 3.9% YoY to RMB662.2 billion, of which the F&B industry accounted for RMB73.3 billion, up by 8.4% YoY. Online retail sales continued to record strong growth, registering a 22% YoY increase to RMB113.7 billion and accounting for 21.1% of total retail sales.

“Catalogue of Prohibitions and Restrictions on New Industries in Beijing” announced

Beijing authorities announced the “Catalogue of Prohibitions and Restrictions on New Industries in Beijing (2018 Edition)” on 26 September 2018. The key planning adjustment forbids the development of commercial and retail facilities over 10,000 sq m within the Third Ring Road area.

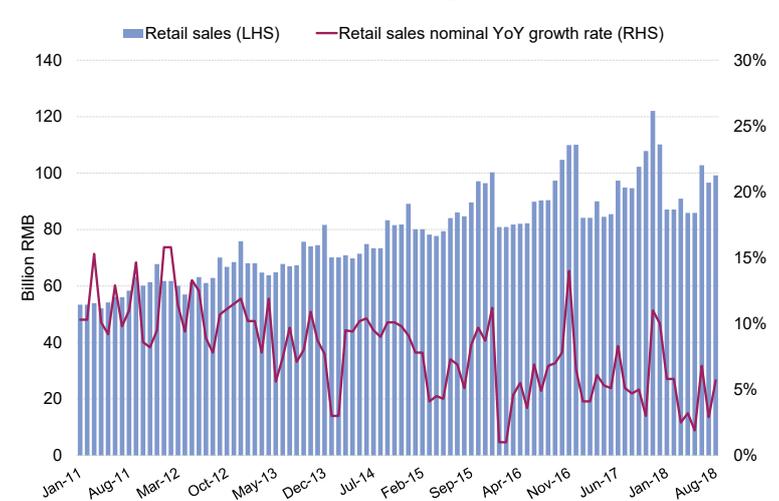
Supply and stock

The retail market saw only one new project launched in Q3/2018, with Longfor Paradise Walk – Fangshan contributing 110,000 sq m GFA. As a result, total shopping mall stock increased to 9.83 million sq m, while department store stock remained at 2.1 million sq m.

Longfor Paradise Walk – Fangshan

Longfor Group launched their third Paradise Walk project in Beijing’s Fangshan district during the quarter. The project is host to a variety of retailers from the entertainment, culture, lifestyle and F&B sectors and achieved 100% occupancy upon launching. Major tenants include Yonghui Super Species, Jackie Chan Cinema, Sisyphean Bookstore, Up Coffee, Cool Times Super Flying Theme Park and Mysong KTV. Almost half of the retailers were making their first entry into the Fangshan district. Paradise Walk is part of the first mixed-use

GRAPH 1 **Retail sales, Jan 2011 – Aug 2018**



Source: Beijing Municipal Statistics Bureau, Savills Research & Consultancy

project in the Fangshan area and is expected to provide convenience with style while catering to the daily consumption habits of the surrounding office and residential populations.

Demand and occupancy rates

Leasing demand was strong in Q3/2018, with the most active expansions coming from the high footfall-generating F&B and fashion categories, which accounted for 33.6% and 23.6% of total leasing demand, respectively. Domestic retailers displayed a strong appetite in expansion, accounting for nearly 60% of total leasing demand. For example, among the newly opened F&B and service retailers, domestic brands dominated foreign brands, accounting for a total of 74.5% and 82.6% of new offerings, respectively.

Some retailers and landlords have teamed up with famous brands to create unique themed experiences and events. One example during the quarter saw Beijing APM partner with Light Painting World Alliance (LPWA) to put on a display of this emerging art form for customers to enjoy.

Retailers targeting children and families have emerged as a key choice for landlords looking to adjust their tenant mix in shopping malls. Solana in Lufthansa, for example, recently introduced approximately 50 brands to their development, of which 17 fell in to the children and family retailer categories.

“New retail” expanded greatly in the city in Q3/2018. Notable activity included Yonghui Super Species opening two outlets in Longfor Paradise Walk - Fangshan and in Zhongguancun district. Hema Supermarket also opened two new stores in Beijing.

Meanwhile, high quality niche brands maintained their places in prime areas. For example, Israeli national skin care brand AHAVA opened its first store in North China in Galeries Lafayette in the Xidan area.

The city-wide occupancy rate increased slightly by 0.2 of a ppt QoQ to 93.3% in Q3/2018, although this rate is down 0.4 of a ppt YoY. The increase was largely due to the 100% occupancy rate of the newly-launched Paradise Walk project.

Prime areas saw the average occupancy rate increase by 0.3 of a ppt QoQ and 1.6 ppts YoY to 96.0%. Prime markets continue to be favoured by many international retailers, who often look to implement unique marketing campaigns to attract customers and boost consumption.

Non-prime areas saw the average occupancy rate increase by 0.1 of a ppt QoQ to 93.3%, up 0.5 of a

ppt YoY. The majority of recently-opened shopping malls have been located in suburban areas, and as a result occupancy rates in suburban markets have fallen by 3.2 ppts YoY to 91.7%. However, the recent strong performance has seen the occupancy rate begin to rebound, up by 0.6 of a ppt QoQ.

Rents

City-wide shopping mall first-floor rents reached an average of

RMB940.7 per sq m per month by the end of Q3/2018, with the rental index registering a growth of 1.2% QoQ and 2.7% YoY.

The prime rental index increased by 0.7% QoQ and 2.6% YoY to an average rent of RMB1,209.0 per sq m per month by the end of Q3/2018. The non-prime rental index increased by 1.1% QoQ and 2.1% YoY to an average rent of RMB722.3 per sq m per month in Q3/2018.

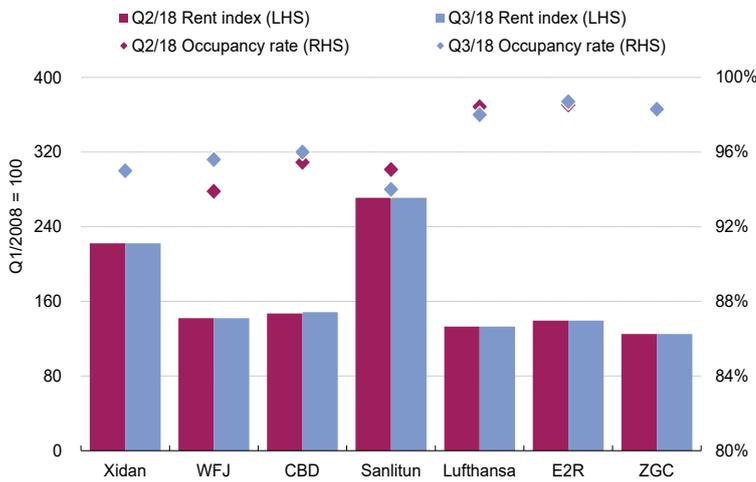
Market outlook

Two new mid- to high-end shopping malls will debut in Q3/2018, contributing a total GFA of approximately 326,000 sq m.

Influenced by urban planning policies such as the “Catalogue of Prohibitions and Restrictions on New Industries”, the central area of Beijing will experience increasingly scarce land supply for retail usage. Moving forward, the majority of new projects will be located outside of the Fourth Ring Road and in suburban areas. The announcement has outlined a strategy whereby Beijing’s retail market should see traditional retail formats located in downtown areas, and shopping malls situated in decentralised and suburban areas.

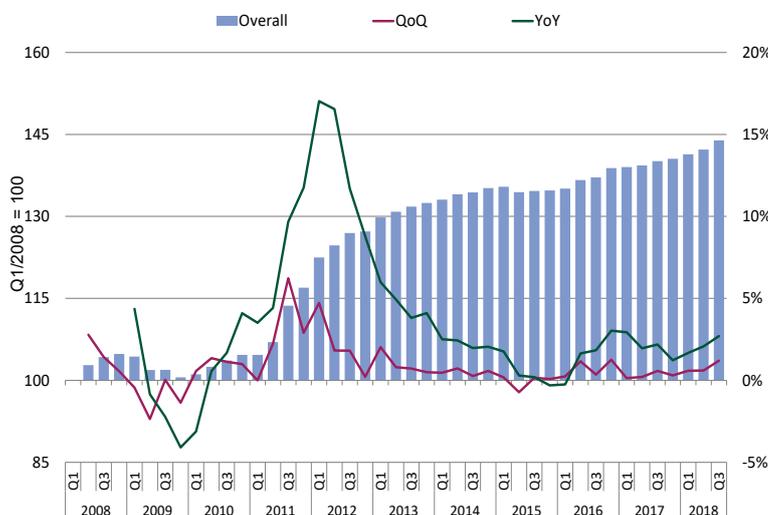
Consumers continue to show an elevated awareness and demand for unique consumption experiences, quality, customisation and convenience. Changing consumer expectations will continue to encourage retailers to adjust and transform their brands as they look to attract and meet the demands of discerning consumers. For example, some retailers have begun to introduce high-tech intelligent platforms that allow consumers to enjoy a virtual shopping guide which offers personalised recommendations. ■

GRAPH 2 Major retail area occupancy rates and rent index, Q2/2018 vs Q3/2018



Source: Savills Research & Consultancy

GRAPH 3 First-floor shopping mall rental index, Q1/2008-Q3/2018



Source: Savills Research & Consultancy

TABLE 1
Project focus, Q4/2018

Project	CapitaMall Tiangongyuan	ID Mall
		
Location	Daxing	Chaoyang
Developer	CapitaLand	CITIC Capital
Retail type	Shopping mall	Shopping mall
Retail GFA (sq m)	200,000	126,000

Source: Savills Research & Consultancy

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