



No new projects in Q1/2019

Some shopping malls made moves to adjust their tenant mix strategies and the city-wide vacancy rate increased slightly as a result.

- Retail sales increased 3.0% year-on-year (YoY) to RMB1,79.38 billion for the first two months of 2019.
- No new shopping malls entered the market in Q1/2019. As a result, total shopping mall stock remained unchanged at 10.12 million sq m. Total department store stock remained at 2.1 million sq m.
- The city-wide shopping mall vacancy rate increased by 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ), though down by 0.6 of a ppt YoY to 6.4% by the end of Q1/2019.
- City-wide shopping mall first-floor rents continued to edge up during Q1/2019, increasing by 0.2% QoQ and 2.4% YoY to an average of RMB946.9 sq m per month.
- Average prime rents increased by 0.3% QoQ and 1.7% YoY to RMB1,215.9 per sq m by the end of Q1/2019.
- Average non-prime rents increased by 0.1% QoQ and 2.5% YoY to RMB728.8 per sq m by the end of Q1/2019.

- Several policies, including measures to improve the retail environment and introduce first store launches of commercial retailers, were announced to promote consumer sales and stimulate development in Beijing's retail market.

“The rollout of several beneficial policies by local authorities caused a rebound in retail sales during the first quarter and is an encouraging sign for the future development of the retail market in Beijing.”

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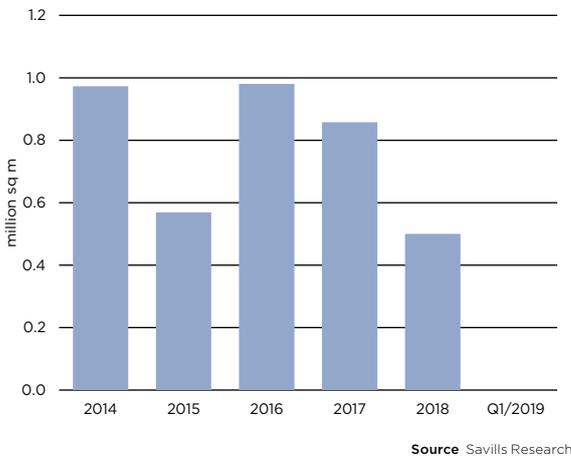
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CENTRAL MANAGEMENT

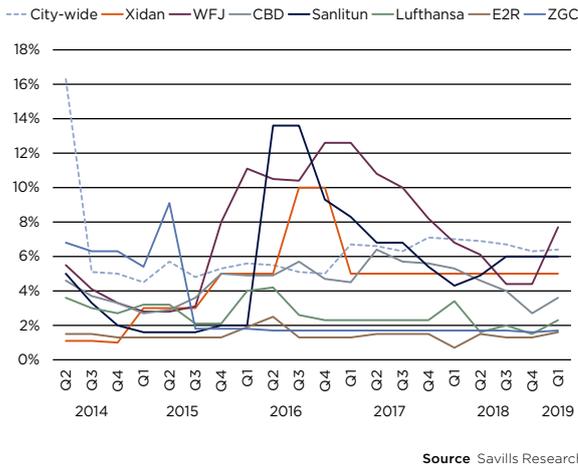
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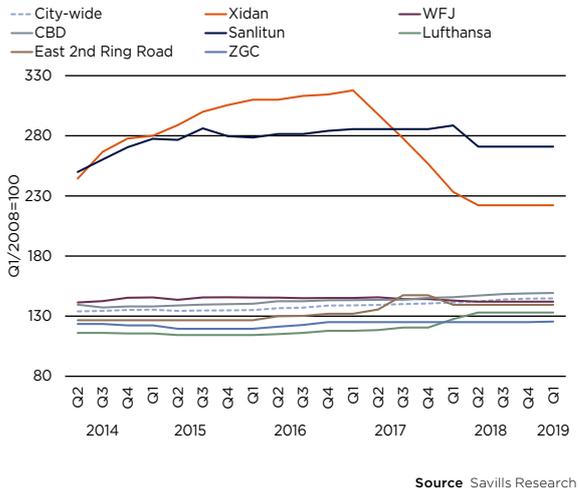
GRAPH 1: Shopping Mall Annual Supply, Q1/2014 to Q1/2019



GRAPH 2: Vacancy Rates In Each Submarket, Q2/2014 to Q1/2019



GRAPH 3: Rental Indices In Each Submarket, Q2/2014 to Q1/2019



ECONOMIC OVERVIEW

Retail sales were up 3.0% YoY to RMB179.38 billion in the first two months of 2019, up from the 2.7% growth seen in 2018. Although a positive uptick, the growth rate remained relatively insignificant.

Several policies were announced by the government to stimulate the development of the retail market:

- 15 February 2019 – Beijing authorities announced the “Measures to Promote Sales and Stabilise Development in Beijing”. The policies aim to improve the retail environment through developing the nightlife economy, encouraging e-commerce, introducing first store launches of commercial retailers in the city and upgrading shopping districts.

- 1 March 2019 – Beijing Municipal Bureau of Commerce issued the “Announcement on the Declaration of Retail Development Projects”. The notice aims to improve convenience for the public by developing a variety of retail formats including New Retail stores, experiential consumer centres and intelligent delivery pick-up stations.

- 25 March 2019 – Beijing Municipal Bureau of Commerce officially rolled out the “Several Measures to Encourage the Development of First Stores”. According to the policy, up to RMB5 million can be awarded for companies opening their first stores in Beijing.

SUPPLY AND DEMAND

No new shopping mall projects entered the market in Q1/2019. As a result, total shopping mall stock remained unchanged at 10.12 million sq m. Total department store stock remained at 2.1 million sq m by the end of Q1/2019.

In terms of market-wide leasing demand, the F&B and fashion categories continued to exhibit the most active performances, accounting for 27.9% and 24.3% of all leasing transactions, respectively. Meanwhile, the accessories and lifestyle categories also recorded strong performances, accounting for 17.9% and 4.3% of leasing activity, respectively.

Prime submarkets continued to be the favourite choice for retailers, accounting for 60.7% of all new store openings. Meanwhile, non-prime and suburban submarkets accounted for 31.4% and 7.9%, respectively. Domestic retailers showed a slightly stronger appetite

for expansion than international retailers, accounting for 60% of total leasing demand during the quarter. International retailers displayed a strong preference for expanding into prime submarkets; meanwhile, domestic retailers exhibited a greater willingness to explore all prime, non-prime and even suburban submarkets.

RENT AND VACANCY RATES

City-wide shopping mall first-floor rents continued to edge up during Q1/2019, increasing by 0.2% QoQ and 2.4% YoY to an average of RMB946.9 sq m per month. Prime average rent increased by 0.3% QoQ and 1.7% YoY to RMB1,215.9 per sq m per month. Non-prime average rent increased by 0.1% QoQ and 2.5% YoY to RMB728.8 per sq m per month by the end of Q1/2019.

The city-wide vacancy rate increased slightly by 0.1 of a ppt QoQ, though down by 0.8 of a ppt YoY, to finish Q1/2019 at 6.4%.

The average vacancy rate in prime areas increased by 1.1 ppts QoQ to 4.6%, though down by 0.4 of a ppt YoY. Average vacancy in non-prime areas remained unchanged on a quarterly basis at 6.6%, though down 0.3 of a ppt YoY. The average vacancy rate in suburban areas held stable at 7.2%, though down 1.1 ppts YoY.

MARKET OUTLOOK

The retail market will continue to see a lack of new supply in the remainder of the first half of 2019. The market is expected to see some new launches in 2H/2019, the majority of which will be located in suburban areas and relatively remote from the city centre.

An increasing number of retailers will strive for delivering ‘boundary-less retail’ to consumers, in which customers can buy whatever they want, whenever and wherever. Consumers’ growing demand for greater convenience will continue to see improved integration across online and offline channels.

Authorities rolled out new cross-border e-commerce regulations on 1 April 2019. Key amendments include an increase in the cut-off amount for tax-free cross-border purchases. Within the increased limits, customers won’t pay any import tariffs and will have their import VAT and consumer tax collected at 70% of the statutory taxable amount.

TABLE 1: Future Project Highlights, 2019

PROJECT	LOCATION	DEVELOPER	RETAIL TYPE	RETAIL GFA (SQ M)
Evergrande City Plaza	Chaoyang	Evergrande Group	Shopping Mall	80,000
ID Mall	Chaoyang	CITIC Capital	Shopping Mall	126,000
AusMall Beijing	Shunyi	Beijing Aojinyuan Real Estate Development	Shopping Mall	120,000
Beijing One	Tongzhou	Perennial Real Estate	Shopping Mall	110,000

Source: Savills Research