

Briefing Retail sector

May 2016



Image: Delight City, Nankai district

SUMMARY

In anticipation of more tepid economic growth, retailers are tending to be more cautious in expanding, placing downward pressure on rental increases.

■ No new high-end retail projects were launched in Q1/2016, with total stock remaining at 4.12 million sq m.

■ The city's (excluding Binhai) first-floor retail rents increased slightly by 0.1% quarter-on-quarter (QoQ) to RMB407.9 per sq m per month, while occupancy rates fell 0.1 of a percentage point (ppt) QoQ to 90.2% in Q1/2016.

■ Binhai New Area's first-floor retail rents remained unchanged from last quarter at RMB247.5 per sq m per month. Occupancy rates increased by 1.8 ppts to 80.3%, due to the recovery and revitalisation seen in the area since the accident more than six months ago.

■ Six high-end projects are expected to be launched onto the market during 2016, adding a total retail GFA of 400,000 sq m.

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“The government will speed up the shift from a manufacturing-driven economy to one with more dependence placed on the service industry. This is represented by spend shifting from products to services in the retail market.” Jonathan Wang, Savills Project & Development Consultancy
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Market overview

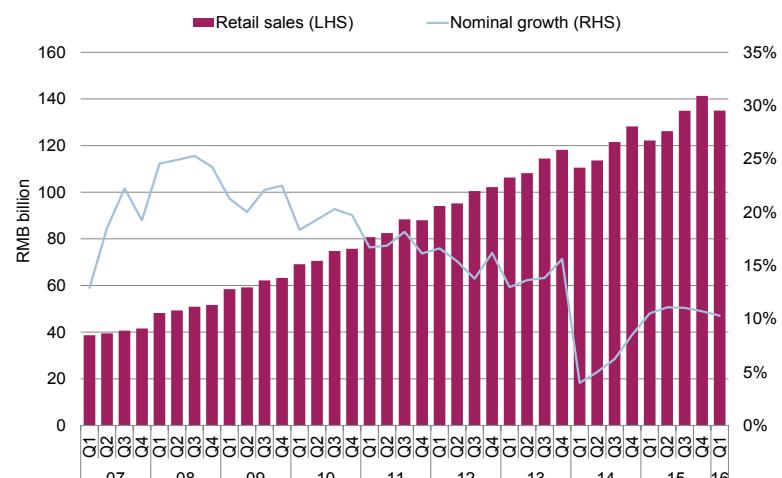
Accumulative retail sales for Q1/2016 reached RMB135 billion, an increase of 10.3% year-on-year (YoY). Housing-related commodities such as construction materials, home appliances and furniture saw a consistent growth due to a heating up of the housing market. Expenditures on commodities and services for leisure and tourism needs have also increased by large margins.

Despite retailers' enthusiasm for expanding waning as a result of the cooling economic growth, consumers' confidence has been resilient, which to some extent sustains their willingness to spend. With life quality constantly improving, and consumers becoming more selective, they are seeking a more balanced life and are more willing to spend on lifestyle services and experience. As for retailers, sports and leisure brands maintained more robust expansion plans than F&B and fashion. Supermarkets are evolving into higher-end markets or even launching new business lines targeted at affluent consumers.

Lifestyle brands are becoming a new highlight of the city's retail market. A lifestyle brand, as the name suggests, conveys a certain concept of life, or way of life, often identifying a specific consumer segment, and offers a broad collection of products and services which could interpret such a lifestyle. Lifestyle stores tend to choose good-performing shopping malls with favourable locations. Shopping malls are also willing to embrace them in return for an enhanced shopping experience for their consumers through the stores' different operation methods.

GRAPH 1

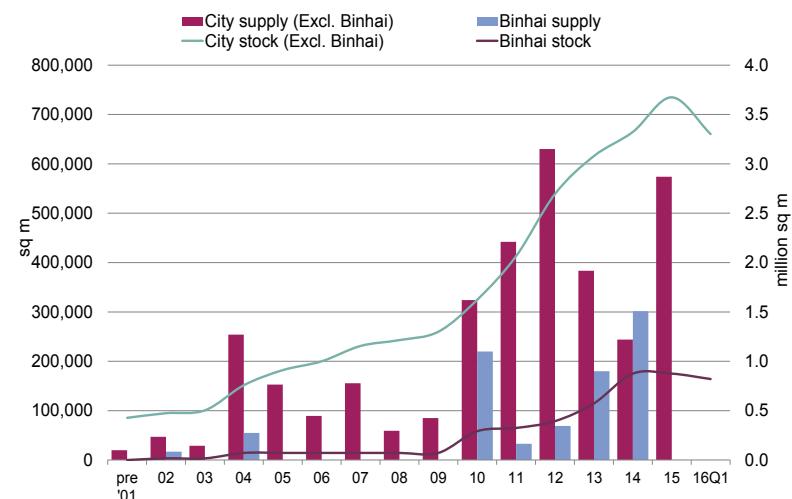
Retail sales, Q1/2007–Q1/2016



Source: Tianjin Statistics Bureau, Savills, Project & Development Consultancy

GRAPH 2

Supply and stock, pre-2001–Q1/2016



Source: Savills, Project & Development Consultancy

Note: The database of the overall market has been reviewed in Q1/2016 according to Savills high-end retail standard, resulting in corresponding changes on stock, rent and vacancy.

Supply and stock

The retail market remained flat during the first quarter, with no new high-end retail projects launched in Q1/2016, and total stock remained at 4.12 million sq m.

Core retail areas have been saturated with mainstream established brands, and developers have begun to place more emphasis on tapping into international fast-

fashion and new entry brands. This year, core retail areas will witness a number of first-time entries for the city, such as Forever21 and Green Tea, which are expected to bring more choice for local consumers.

Since the implementation of the Tianjin Free Trade Zone, retail innovation modes of bonded goods sales and exhibition centre and cross-border e-commerce have

been greatly promoted. However, along with the stricter taxation regulations on cross-border e-commerce, small online retailers who import goods to bonded warehouses and resell them will be affected in the short term, and face an urgent need to adjust their business strategies.

Rents and vacancy rates

City (excluding Binhai) first-floor retail rents increased slightly by 0.1% QoQ to RMB407.9 per sq m per month, while occupancy rates fell 0.1 of a ppt QoQ to 90.2% in Q1/2016. The Heping-Binjiang-Nanjing Road area averaged RMB610 per sq m per month, equivalent to that of last quarter.

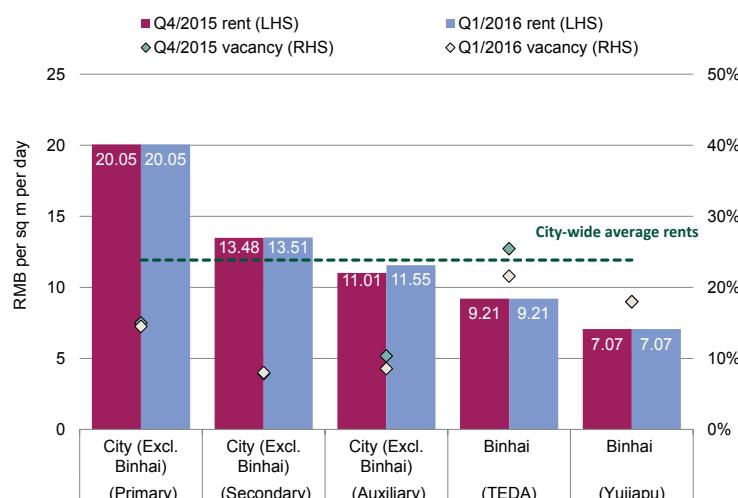
Binhai New Area's first-floor retail rents remained unchanged from last quarter at RMB247.5 per sq m per month. Occupancy rates increased by 1.8 ppts to 80.3%, due to the recovery and revitalisation seen in the area since the accident more than six months ago.

Projects and retail stores

- APM Monaco, a French niche jewellery brand, opened a store in the northern wing of Tianjin Joy City in January.
- Trenta, a Korean fashion brand, opened a store in the northern wing of Tianjin Joy City in January.
- The North Face, an American outdoor wear brand, opened a store in Galaxy Mall in January.
- M-essential, a lifestyle designer brand, opened a store in Galaxy Mall in January.
- Begrow lifestyle store opened in Delight City in January.

GRAPH 3

Rents and vacancy rates, Q4/2015 VS Q1/2016



Source: Savills, Project & Development Consultancy

- Bravo YH, the high-end brand of Yong Hui Supermarket, opened a store with an area of 8,500 sq m in Delight City in January, their third store in the city.
- RenRenLe, a domestic chain supermarket, opened its high-end "Le Super" supermarket in We-life Plaza in February.
- Apple retail store opened in Tianjin Riverside 66 in March, their second store in the city after their first in Tianjin Joy City.

Market¹ outlook

Six high-end projects are expected to launch onto the city's market in the remainder of 2016, including the Metropolitan Tower Shopping Mall (76,000 sq m) and Heping Joy City (20,000 sq m). Both in the Heping district, they will add a total retail GFA of 400,000 sq m. The large number of projects in the pipeline, along with expectations of moderate economic growth, will pose greater challenges to the retail market, including placing downward

pressure on both vacancy rates and rents.

The national government will speed up the shift from a manufacturing-driven economy to one with more dependence placed on the service industry. In the retail market, this is represented by the change in consumption habits, which previously focused on the product itself and have now evolved to place more emphasis on the attached extra services. A consumer-centric experience will continue to be emphasised, with lifestyle brands drawing more attention in the future. ■

Note: Tianjin's retail market is divided into the city (excluding Binhai New Area) and Binhai New Area retail markets.

Project focus

Heping Joy City (formerly The Exchange Mall)

Joy City announced their takeover of the Exchange Mall through light-asset strategy for the first time, and renamed it Heping Joy City. Heping Joy City, located favourably in the busiest commercial district, Nanjing Road, and in close proximity to the Yinkoudao metro station lines 1 and 3, is aimed at the white-collars aged 22-35 working in the nearby office buildings. With greater importance placed on brand uniqueness, the new mall will allocate more space to exquisite designer brands and theme streets. The project is expected to open in late 2016.

	
Location	Nanjing Road, Heping district
Developer	Joy City property
Retail GFA	20,000 sq m
Floors	Floor One to Four
Estimated opening	Q4/2016

Source: Savills, Project & Development Consultancy

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