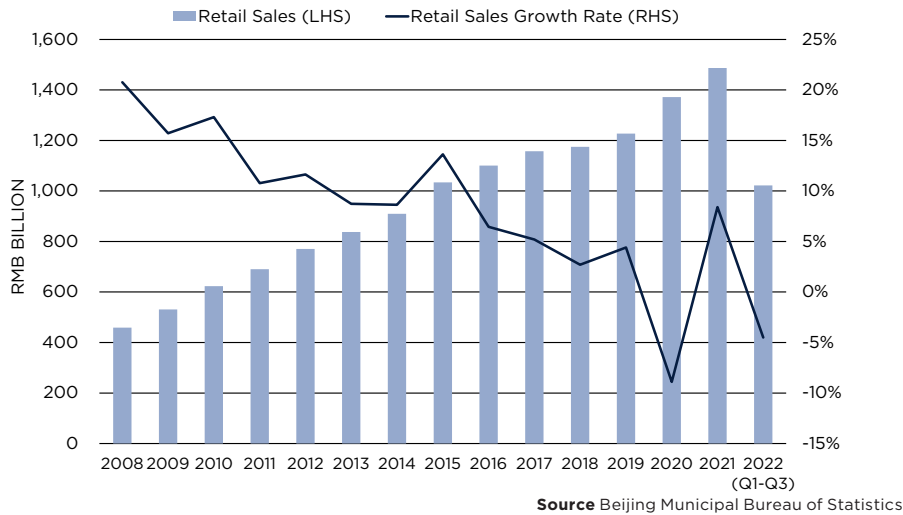


Beijing Retail

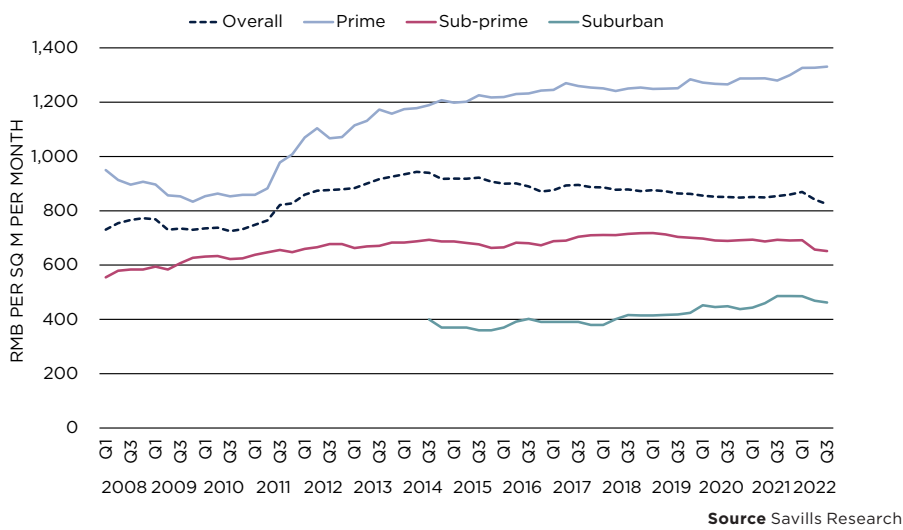


Welcoming a new supply peak

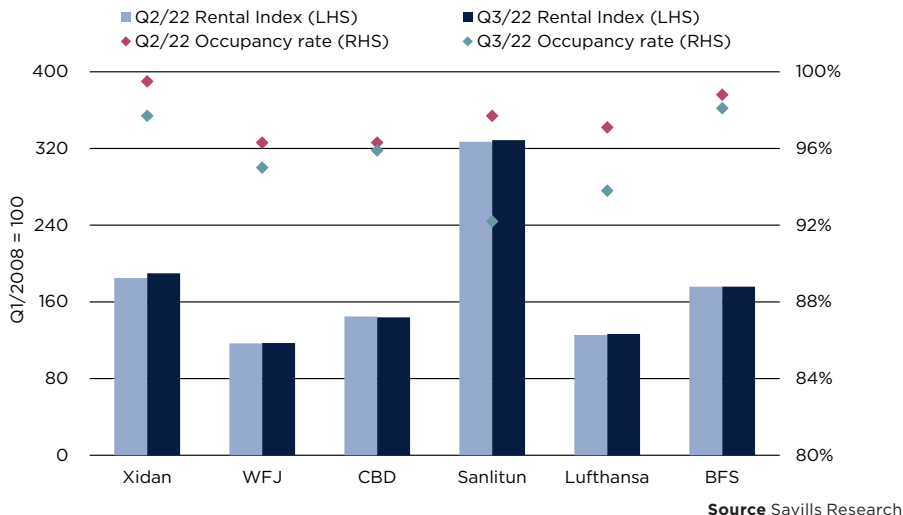
GRAPH 1: Beijing Retail Sales, 2008 to Q3/2022



GRAPH 2: First-floor Shopping Mall Rents, Q1/2008 to Q3/2022



GRAPH 3: Prime Retail Submarkets Vacancy Rates and Rental Index, Q2/2022 vs Q3/2022



ECONOMIC OVERVIEW

Total retail sales declined 4.5% YoY to RMB1,021.95 billion in the first nine months of 2022. General retail sales fell 3.9% YoY to RMB946.71 billion whilst F&B sales also fell 11.6% YoY to RMB75.24 billion. The retail market performed well in Q1/2022, driven by the Winter Olympic Games and Spring Festival but it was heavily impacted by the epidemic outbreak in Q2/2022. The market however began to recover and saw a new supply peak in Q3/2022.

SUPPLY AND STOCK

Located in non-prime and suburban markets, seven new projects were launched, bringing the total shopping mall stock to 11.02 million sq m, whilst the total department store stock remained at 2.03 million sq m by the end of Q3/2022. The new projects included:

- Chang'an Mills and Jin An Uni-Elite, both located in Shijingshan District, were launched in Q2/2022, bringing a total of around 87,000 sq m of retail space.
- Yaojiayuan MixC and BIG Shopping Park, both located in Chaoyang District, made their debuts in Q2/2022 and Q3/2022, respectively, bringing around 202,000 sq m of retail GFA to the market.
- 82,200 sq m Lize Sky Mall located in Fengtai District also made its debut in Q3/2022.
- Uni Fun Daxing and Paradise Walk Yizhuang, both located in Daxing District, added a total of 180,000 sq m of retail space to the market in Q3/2022.

RENTS AND VACANCY RATES

Retail activities in the city resumed to some extent in Q3/2022, but brand adjustments and leasing activities in shopping malls are yet to fully recover from the impact of the epidemic in Q2/2022. Vacancy rates in prime and non-prime submarkets slightly increased. Shopping malls in prime submarkets were more focused on promotion and renovation coupled with brand portfolio adjustments as well as brands opening multiple new stores during the first three quarters. Newly launched shopping malls are mostly located in the subprime and suburban submarkets which brought sufficient supply to the local area. Considering the new supply, the citywide shopping mall vacancy rate grew 0.9 ppt QoQ to 7.1%, up 1.3 ppts YoY. The average vacancy rate in prime submarkets edged up 1.8% QoQ to 4.8%, up 1.4% YoY. Non-prime

submarkets saw their average vacancy rates reach 5.5%, up 0.5% QoQ and 0.7% YoY.

To counter the increasing vacancy rate, many landlords adjusted their strategies from lowering rents to providing subsidies and supporting the general retail stores. This led to the overall citywide shopping mall first-floor rents dropping to an average of RMB824.4 per sq m per month in Q3/2022, while the rental index decreased 0.2% QoQ, down 3.6% YoY. Average prime first-floor rents hit an average of RMB1,330.7 per sq m per month by the end of Q3/2022, and the rental index was slightly up by 0.2% QoQ, but down 0.5% YoY. Average non-prime first-floor rents registered at an average of RMB651.7 per sq m per month and the rental index decreased 0.4% QoQ, down 5.5% YoY.

POLICIES

Beijing government released multiple supportive policies to further stimulate the retail market and accelerate its recovery from the COVID outbreak in Q2/2022. Some favourable policies published in the first three quarters of 2022 included:

- Beijing Municipal Commerce Bureau launched the “Measures on Boosting the High-quality Development of First-store and First-Launch Economies Version 3.0” in March to support businesses, providing subsidies of up to RMB5 million to qualified first-store brands;
- Eight government departments issued “27 measures to boost consumption” in July to drive the recovery of the retail market;
- In July, multiple platforms offered consumption vouchers to residents to stimulate local spending;

Despite the persistent impact of COVID outbreaks, Beijing’s retail market continued to show resilience and confidence with a peak of new supply expected by the end of 2022.

- In August, Beijing Municipal Commerce Bureau provided financial assistance to businesses that were significantly affected by the epidemic, supported the stable development of large shopping malls, encouraged rent reduction by retail and department stores, and allocated subsidies to landlords who lowered their rents during the epidemic;
- “Special Planning of Beijing Commercial Districts” was released in September, which defined the medium and long-term goals of commercial consumption space, with plans to turn Beijing into a model city for international consumption by 2035.

DEMAND AND TRENDS

Beijing witnessed a boom in its ice and snow economy with the opening of the 24th Winter Olympic Games, and alongside the celebration of the Spring Festival, the retail market showed an impressive performance in Q1/2022. Moreover, the Beijing Municipal Commerce Bureau established a series of

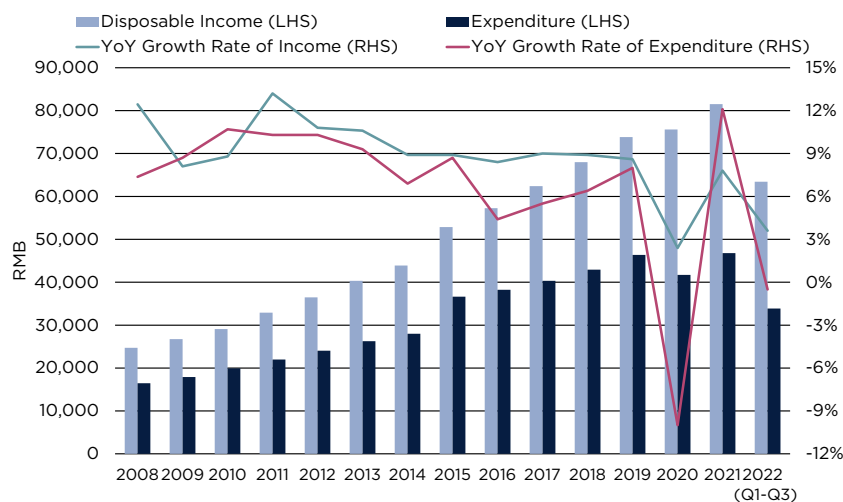
consumption season highlights such as the “2022 Beijing Ice and Snow Consumption Festival” to accelerate the construction of the city as an international consumption centre.

However, the retail market was heavily impacted by the epidemic outbreak in Q2/2022 but has begun to recover in Q3/2022 as the local government ramped up plans to boost consumption by supporting first-store openings and developing international consumption hubs. Under the “One Policy for One Retail Store”, upgrades and renovation of projects continued to flourish, for instance, Dong’an Market in the Wangfujing submarket is expected to welcome more renovation projects by year-end. These market dynamics indicate that the retail market is full of resilience, characterised by the unaltered trend of expanding consumption scale and upgrading consumption structure despite the impact of the epidemic outbreaks.

New store openings and brand adjustments in shopping malls have become more active, especially in the third quarter, with the retail formats of new first store openings being concentrated on:

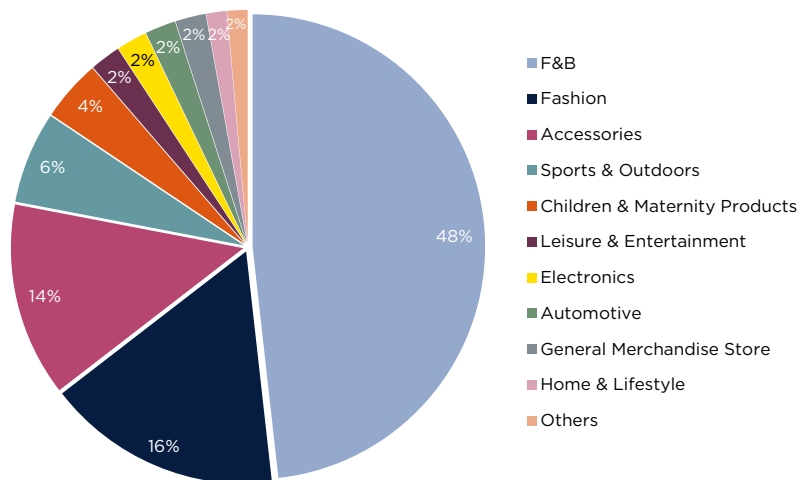
- F&B: Impacted relatively heavier by COVID in Q2/2022, but rebounded in Q3/2022 as the epidemic was effectively contained. Well-known Chinese and speciality dining brands opened their first stores, whilst beverage brands such as Tea Drink, Coffee and Bakery expanded rapidly with the opening of their new stores;
- Fashion: Trendy fashion brands and select shops opened in the first three quarters of 2022; outdoor clothing and sportswear new store openings were the highlights of this period;
- Accessories: Most new accessory stores in Q1-Q3/2022 were jewellery, perfume, skincare, bags and shoes-related brands. First-store openings predominantly came from high-end beauty and skincare brands.

GRAPH 4: Disposable Income and Expenditure, 2008 to Q1-Q3/2022



Source Beijing Municipal Bureau of Statistics

GRAPH 5: First Store Openings Breakdown*, Q1-Q3/2022



Source Source: Savills Research
* Breakdown is based on the number of first-store openings.

MARKET OUTLOOK

The Beijing retail market saw high consumption in Q1/2022, driven by the Spring Festival holidays and the Beijing Winter Olympic Games. However, the resurgence of the epidemic and multiple prevention policies during Q2/2022 have brought great challenges to the retail market, with many landlords left with no choice but to reduce rents or provide subsidies to help general retail stores overcome difficulties. Nevertheless, the market saw signs of recovery as a new supply peak was recorded in Q3/2022. This trend is expected to continue, with five new shopping malls set to open in Q4/2022, adding approximately 408,000 sq m to the market.

Depending on the extent of the COVID outbreaks in the future, the retail market will see positive momentum, with new retail projects and brand selection adjustments in shopping malls continuing to optimise the consumption environment. In addition to the multiple holidays following the shopping campaigns at the end of the year, Beijing’s retail market is expected to see more consumption hotspots in the city, thereby inducing a rising enthusiasm among consumers.

TABLE 1: Selected Future Projects, Q4/2022

PROJECT	LOCATION	DEVELOPER	RETAIL TYPE	GFA (SQ M)
Joy City Beijing West	Shijingshan District	Grand Joy Holdings	Shopping Mall	103,000
SKP DT51	Chaoyang District	Beijing Hulian Group	Shopping Mall	100,000
Grand Canal Place	Tongzhou District	Sino-Ocean Group	Shopping Mall	100,000
Xinguangjie Shopping Mall	Daxing District	Beijing Xingchuang Investment	Shopping Mall	55,000
Shangde Mall	Daxing District	Shangde Real Estate	Shopping Mall	50,000

Source Savills Research



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