

# China 20 Retail Cities



In association with



• 2020 city rankings

• Retail trends

• Sustainable fashion

# City

While China's retail market was heavily impacted by the outbreak of COVID-19 in Q1/2020, the market has steadily recovered. According to eMarketer China, retail sales are forecast to reach USD5.2 trillion for the full year 2020, making it the largest consumer market in the world.

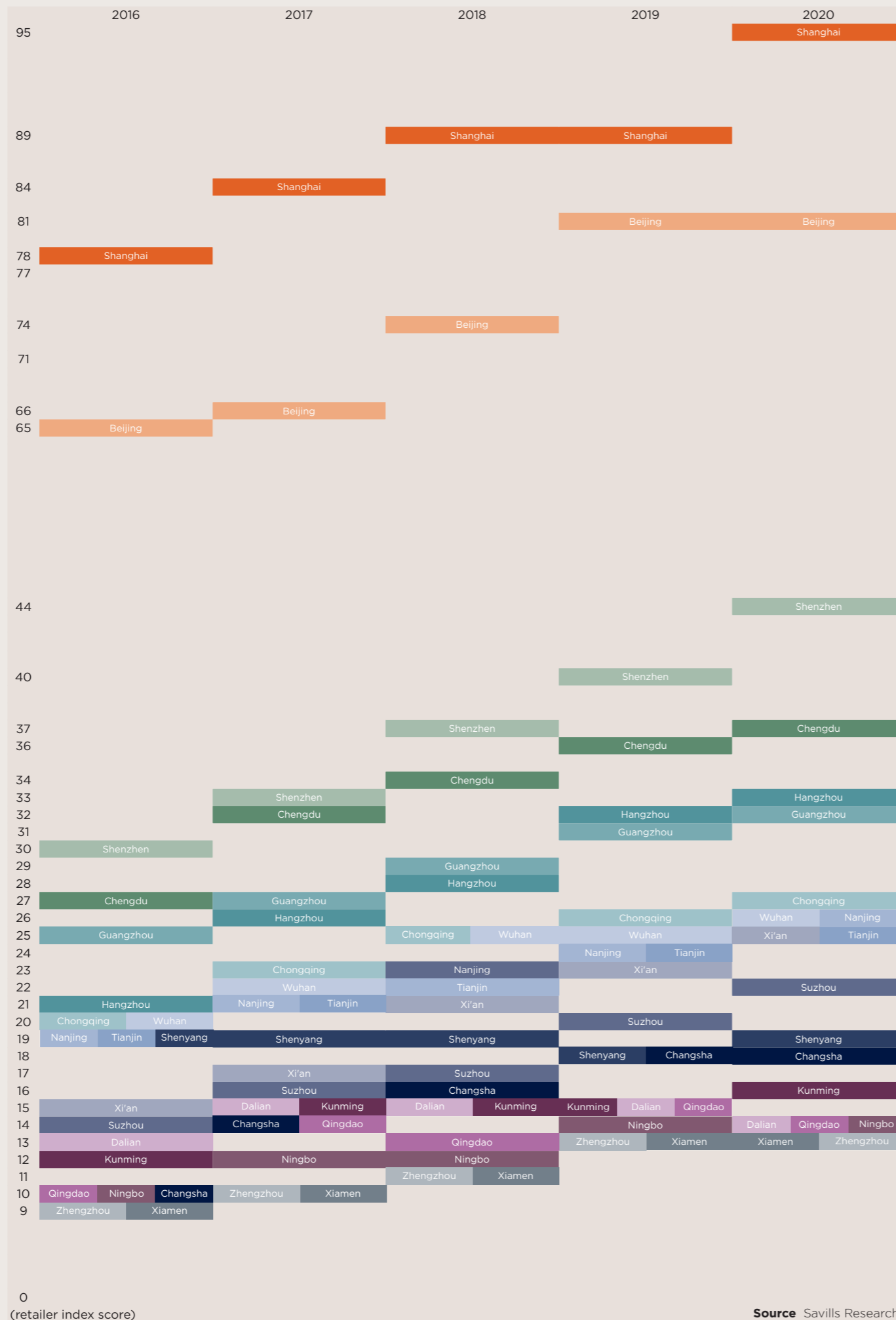
As the global pandemic weighs on retail markets around the world, retailers have understandably turned much more cautious. Projects and store openings have been postponed, and brands have focused on core cities, prime locations and leading landlords. Shanghai and Shenzhen have significantly outperformed other cities in terms of new store count when compared to 12 months earlier.

The economic impact of COVID-19 on different cities varied notably. Wuhan was unsurprisingly one of the worst affected out of the 20 cities. Meanwhile, regional centres Xi'an and Changsha recorded some of the highest economic growth rates. The three eastern cities of Xiamen, Hangzhou and Ningbo saw retail sales growth rates least impacted by COVID-19 with consumption supported by the higher income levels of local households.

**FIGURE: Savills city retailer index ranking, 2016-2020**

**Notes:**  
1. Savills city retailer index was first published in 2014. The index analyses the number of stores in 20 cities operated by 50 selected international brands from eight categories (luxury, affordable luxury, fast food, coffee, mass-market fashion, premium fashion, cosmetic and big box). The numbers are weighted and aggregated to give a final score for each city. A city recording the highest store count in all eight categories will score 100.

2. The 50 brands are large, established international brands that have operated in China for over five years.



Source Savills Research

## Shanghai widens its gap with Beijing for the first time

In the past, brands have tended to grow their Shanghai and Beijing operations at a similar pace. However, the pandemic and subsequent lockdowns have disrupted this balance. In the 12 months to June 2020, the average growth of the eight retail categories in Shanghai was 7.6%, 5.7 percentage points (ppts) higher than in Beijing. Though neither city saw any new projects opening in the first half of the year, Beijing recorded a secondary outbreak in June as well as seeing much stricter travel and operational restrictions, resulting in a slower recovery of business operations and the retail market. Of the different segments, luxury brands were more active with Louis Vuitton, Gucci and Prada all opening locations in SKP-S in Beijing.

Shanghai was fortunate enough to avoid a secondary outbreak and saw businesses start to return to normal in late March with retail footfall and sales steadily recovering. Leading luxury and cosmetic brands opened more stores than in the preceding three years. Louis Vuitton opened two new stores in Xujiahui—the first time LV has added a store since closing one back in 2016.

## Shenzhen pulls ahead of Chengdu

Third place Shenzhen widened its lead over Chengdu over the last 12 months. Shenzhen's new retail supply in 2019 was almost double that of Chengdu. Luxury and affordable luxury brands recorded higher store growth in Shenzhen. Chengdu, on the other hand, maintained its lead with cosmetic brands and remains the first choice of many retailers looking to tap the central and western China markets.

## Hangzhou and Guangzhou remain neck and neck

The Hangzhou and Guangzhou scores remain close, with both narrowing the gap with fourth-placed Chengdu. Hangzhou marginally overtook Guangzhou in 2019 and managed to maintain its lead in 2020. Nevertheless, Guangzhou recorded faster store growth than Hangzhou with mass-market fashion and cosmetic brands with these types of stores expanding in Guangzhou by over 10%. Both cities are expected to remain neck and neck in 2021 as both cities are scheduled to receive similar amounts of new retail supply in 2020 at 420,000 sq m (Guangzhou) and 360,000 sq m (Hangzhou).

## Chongqing is the fourth-largest luxury market

Chongqing has proven a favourite location for luxury brands over the last five years. This, combined with the mass-market segment which was more active over the last 12 months, helped to push up the city's score. In particular, the coffee brands segment grew rapidly with the store number of selected brands increasing 30%, and the city also added its first Starbucks Reserve Café and Bar Mixato.

## Nanjing closes in on Wuhan

Nanjing's economy and retail market was less impacted by COVID-19 than Wuhan, with its economy growing by 2.2% in 1H/2020, the second-highest growth rate among the 20 cities surveyed. Of the 50 brands in the survey, 90% of them have a presence in Nanjing, with a diverse market and large student population helping to attract more international brands. Wuhan has now fallen behind Nanjing in categories such as fashion and coffee stores, but the city is still in a strong position with retail vacancy rates having only increased by 0.3 of a ppt in 1H/2020.

## Xi'an enters Top 10

Xi'an becomes the fourth mid-western city to enter the Top 10 after Chengdu, Chongqing and Wuhan. Xi'an recorded the biggest increase in retail space among the 20 cities in 2018 and 2019. Thanks to the strong appeal of leading developers and strong consumer demand, the city was able to attract 44 of the 50 brands in the survey.

## Suzhou remains important, but challenges remain

With proximity to Shanghai and a diffused population, Suzhou remains a challenging market for retailers to find the most suitable location with a big enough catchment. Nevertheless, the city has the second-largest population and economy in the Yangtze River Delta and is hard to overlook.

## Shenyang records slight improvement

There are few highlights in northern China second-tier cities. Tianjin was driven out of Top 10 list by Xi'an, while Dalian and Qingdao both saw their scores decline (indicating that the store growth is below average). Shenyang, however, did record a slight improvement supported by the expansion of cosmetic and coffee brands in the city, though its leading position in the luxury segment has been toppled by Chongqing's success.

## Kunming presses on Changsha

Landmark projects often play a decisive role in the success of an emerging city's retail market. Kunming had stayed ahead of Changsha for a number of years before the opening of Changsha IFS catapulted Changsha up the rankings with the introduction and expansion of several brands. The opening of Spring City 66 in 2019, however, helped Kunming narrow the gap somewhat. Both cities are expected to welcome more projects by leading developers, such as Joy City and SKP, in the coming years, increasing the market appeal to retailers and helping the cities stay ahead of the cities trailing them in the rankings.

## Xiamen overtakes Zhengzhou

Xiamen is a minnow in the top 20 cities with a population of just 4.3 million in 2019, roughly half the size of Zhengzhou. Nevertheless, a strong tourism industry and high disposable income have supported the development of the city's retail market. Xiamen saw a 55% year-on-year (YoY) fall in airport passenger numbers in 1H/2020, but only a 3.9% decrease in retail sales, the lowest among eastern second-tier cities.

## Hainan duty-free support



Hainan province is one of the most popular tourist destinations in China with abundant natural resources and an array of 5-star hotels. The province has substantial policy support which is likely to drive its economy in the coming years, most notably its position as a Free Trade Port as well as preferential duty-free policies since 2011 with some product prices even comparable to those in Hong Kong. The duty-free policy has been gradually expanded in subsequent years with the most recent announcements in 2020, increasing the number of items and range of product categories while also increasing the cap from RMB30,000 to RMB100,000 per year.

The new policy helped boost duty-free sales to over RMB2.2 billion in July, up 235% YoY. At present, China Duty Free Group dominates Hainan's duty-free market, but several domestic department store companies and overseas duty-free operators have recently received or are applying for licenses.

Retailers are looking for spaces, but quality stock is limited with Haikou and Sanya having only 1.7 million and 400,000 sq m of quality shopping mall stock, respectively. However, there are huge expectations for the future development of the market.

# Sector

Retail sales bottomed out in February/March with YoY growth subsequently improving. Consumption of necessities, such as food and daily goods, have already bounced back to long term growth rates, while discretionary spending is expected to play the key role in continued market recovery in the second half of the year. The cosmetics sector, in particular, is expected to take the lead.

Leading luxury, cosmetic and coffee brands were more active in opening new stores than the mass-market fashion segment. The quality of luxury products, as well as the status symbol of owning them, remain a key draw for consumers and help to drive sales growth in luxury shopping malls. The F&B segment is largely treading water at the moment, focusing on increase existing store revenues and attracting consumers back through new menus and promotional campaigns. Cinemas were one of the last retail locations to reopen, opening their doors again in July. The entertainment sector is expected to see the more aggressive expansion from new concept brands in the coming years.

China has the largest ecommerce market in the world with high penetration rates in many segments. Consumers are eager to try out product and service concepts and see new store designs and regularly pour over the internet in search of the next big thing. The COVID-19 pandemic has led to the consolidation of the retail market with weaker brands pushed out of the market. At the same time, however, new emerging brands are able to secure prime locations and elevate the profile and brand awareness.

## Luxury

Chinese consumers are expected to account for nearly 50% of global luxury spending by 2025, with about 30% taking place within China. COVID-19 is accelerating this trend. Travel restrictions mean that Chinese outbound tourism will be redirected to local markets along with much of their luxury consumption. While luxury retail stores were closed for less than two months, they have been able to adopt and integrate a number of innovative online marketing and sales practices, such as live-streaming, to enhance their penetration, retention and conversion rates.

### Burberry

Burberry was one of the earlier brands to adjust store interior design and layout while also adopting social platforms, such as WeChat, to promote their brand. Mainland sales in Q2/2020 grew by 10% YoY, exceeding pre-COVID-19 growth rates. Burberry and Tencent also collaborated on a new store in Shenzhen, using the concept of social retail to encourage customers to interact with different spaces and products in the store through QR codes or WeChat mini-programs.



## Cosmetics

Cosmetics have been leading the recovery in the consumer market, with growth exceeding 15% YoY since April. The high-end cosmetics industry is still dominated by international brands for the time being, while domestic brands are becoming increasingly competitive in the mid-end of the market. Domestic retailers have leveraged online platforms to raise their profile, which is rapidly becoming an established strategy for building emerging brands.

### Perfect Diary

Perfect Diary, one of the earliest brands to rise to stardom via online channels, has now opened more than 80 offline stores. The five-floor flagship store on Chunxi Road in Chengdu occupies more than 1,000 sq m GFA. Store design focuses on an immersive omnichannel experience, with consumers ordering and paying through mobile phones. There is also a cafe to provide rest and social space for customers.



## Fashion

International brands global sales have been greatly impacted by COVID-19, with some brands deciding to close stores in China or even withdrawing from the market altogether. At the same time, emerging domestic brands are well received by young shoppers and are increasingly driving trends in the market. Young consumers are well-informed and have higher requirements for brand image, value for money and omnichannel promotion.

### China Li Ning

As a leading domestic sports brand, Li Ning launched its fashion sub-brand China Li Ning in 2017, which has proven very popular with a new generation of consumers and maintained strong growth in the past two years. The brand is now adjusting its store network in response to COVID-19, with store numbers expected to increase in 2020.



## Sports

With improving health awareness, the demand for sports products and equipment has increased steadily. After the opening of sports facilities and gyms, sports brands once again look to restore growth. Aside from professional sports equipment, the outdoor sports segment, which originally took longer to gain traction, is expected to become the next driver of growth.

### Lululemon

Lululemon opened its first stores in Tianjin, Qingdao, Wuxi and a number of other cities in 2020. Its Hangzhou store which opened in 2019, is the brand's largest one in China and is in cooperation with Space Fitness. Lululemon occupies the first floor with Space Fitness's classroom on the second floor, providing a series of courses to drive home the consumer experience.



## Lifestyle

High-quality, domestic ODM ecommerce platforms have expanded the range of household goods available to consumers. The majority of domestic lifestyle brands tend to focus on value for money and low-cost, standardised products to dominate the market. New entrants, on the other hand, tend to choose more fashionable and personalised designs or collections from the mid-and high-end market, including Nordic minimalism style and Japanese-style groceries. Most of the latter chose first-tier cities as their starting point, looking to build a following with more lifestyle-oriented consumer groups.

### Loft

Japanese lifestyle collection store Loft opened its first store on mainland China in Shanghai in 2020, its first overseas self-operated store. The Shanghai store covers approx. 1,000 sq m and has more than 25,000 items, including stationery, personal care products, home decoration items and groceries.



## Food

China has many different regional cuisines and locals have particular tastes which often make it difficult for regional brands to enter new cities. How is it possible to maintain their own characteristics while being accepted by local diners? This is one of the larger obstacles facing many brands' national expansion plans. The more immediate challenge, however, was the impact of COVID-19. F&B operators had to prioritise to generate cash flow, control costs and optimise and safeguard supply chains, while also launching food delivery and reducing stores sizes.

### Wenheyou Superb

Wenheyou Group launched a sub-brand Wenheyou Superb in 2019. Its Guangzhou outlet GFA is 5,000 sq m, while its Shenzhen store is expected to be 30,000 sq m. Locations support a large number of restaurants, as well as a creative bazaar and exhibition space. The combination of old local F&B retailers, retro design and active online engagement are all key to the success of Wenheyou Superb.



## Cafés/tea stores

Cafés and tea store chains tend to be relatively flexible in terms of store locations and sizes and have become an increasingly competitive segment in recent years with significant capital injections fuelling growth. Brands have gone all out on product innovation, store design and staying current through co-branding, theme stores and cross-border cooperation in order to retain customers.

### Nayuki's Bla Bla Bar

Nayuki's Bla Bla Bar, a sub-brand of Nayuki's Tea, was launched in 2019 and has now opened more than 19 stores across the country. Based on traditional tea drinks, the brand has introduced several alcoholic beverages to their menus to expand their appeal to more consumers and drive consumption into the later hours. In Shanghai's Pudong store, they have also cooperated with online talk show program, Rock & Roast, to enrich user experience and increase linger time.



## Entertainment

As China continues to strengthen intellectual property rights and protection and prosecute copyright infringements, the country is seeing growing business opportunities in the entertainment sector. Creative works from manga and the gaming, TV and film industry are increasingly being applied to room escapes, claw machines, theatres and many more entertainment venues/activities in order to attract consumers.

### LLJ Station

LLJ (Lucky, Lucky Joy), in collaboration with Disney and DC comics, has introduced several creative elements into its claw machine centres. LLJ has also developed its own creative content and launched related products to retain consumer's interest. LLJ also recently opened a Beijing store with Namco to provide an immersive experience to customers.



## Supermarkets

Supermarkets sales growth rates have largely returned to pre-COVID long term rates. Consumers, however, have retained slightly altered shopping habits, including the purchase of fresh foods through online platforms versus local wet markets which were temporarily closed in response to the outbreak. The market continues to go through a consolidation period with international retailers, Carrefour and Metro, selling stakes to their Chinese peers, utilising their supply chain advantages to establish a stronger national position and grow market share. At the same time, some companies are looking to vertically integrate into food production as well as adopting an array of digital tools.

### Costco

Costco opened its first store in mainland China in August 2019 with 14,000 sq m of space. The store recorded satisfactory sales performance since its opening, and a second store in Shanghai is already under construction. The company also plans to expand its footprint into Suzhou and Hangzhou.



## Automotive

Supported by government stimulus policies, automobile sales increased 12.3% YoY in July 2020. Automobile sales account for nearly 30% of the retail market for companies with revenues greater than RMB5 million. New Energy Vehicles (NEVs) are the new demand driver as production costs fall and supporting infrastructure improves. More NEV brands are opening showrooms in high visibility locations to establish and promote their brands.

### Polestar

Polestar, the automotive brand under Volvo and Geely, has opened Polestar Space in Beijing and Shanghai. The store is designed more like a boutique store rather than a traditional showroom and is designed to build a closer relationship with customers through immersive experiences and customer service. The company plans to open 20 stores in China in 2020.



# Green retail

MAP: LEED retail spaces in 20 cities

## Green is the new black



By Jing Wang, North Asia Director, U.S. Green Building Council

The concept of sustainable development has gradually seeped into our collective consciousness and into more aspects of our lives with the retail industry playing a critical role. Sustainability is no longer a fringe concept but increasingly playing a central role. Leading international brands are taking steps to innovate material procurement, recycling processes and business models. At COP24 in 2018, the “Fashion Industry Charter for Climate Action” was launched to collectively addressing the climate impact of the fashion industry across its entire value chain. Around 100 brands have already signed the charter, including Kering, Burberry, Adidas and H&M. The initial target will be to reduce greenhouse gas emissions by 30% by 2030 and achieve net-zero emissions by 2050.

Retail is the second-largest LEED-certified space type after office and accounts for 13% of LEED-certified projects globally and 17% in China, with China coming third in terms of the number of LEED-certified retail spaces in the world. Greater China (including Mainland China, Hong Kong, Macau and Taiwan) had 5,833 LEED-certified projects by the end of July 2020, 981 of which were retail spaces, including F&B outlets (such as McDonald’s and Starbucks), retail stores (such as Zara, Swarovski and Nike) and luxury stores (such as Burberry, Gucci and Prada). Retail is a fundamental part of any economy. Improving the consumer experience in these LEED-certified spaces helps a community thrive by protecting the environment and improving personal health.

Amid rising concerns in the capital markets about climate change and greater corporate awareness of Environmental, Social, and Governance (ESG), LEED certification is now a universal tool and can be seen as a sign that a company or project is eligible for green financing. In November 2019, Prada became the first luxury company that signed a sustainability-linked loan. The loan will be issued by Crédit Agricole Group with a term of five years and a total sum of EUR50 million. Prada is eligible to enjoy a reduction of interest rates if three targets are achieved, including the number of stores assigned of a LEED Gold or Platinum Certification, the number of training hours for the employees and the use of Prada Re-Nylon (regenerated nylon) for the production of goods. By the end of 2019, Prada Group had obtained LEED certifications for 36 stores and one factory.

Growing attention to sustainability is closely related to retailers’ triple bottom line (people, planet and profit) and helps meet young consumers’ demands for sustainable development. The latest report by L’Oréal’s shows that more young people believe that “today’s consumption is a vote for tomorrow”. With Millennials and Gen Z the driving force in the consumer market to 2030 and beyond, brands need to think about how to attract them as both consumers and employees. A more sustainable brand will be much more competitive in the future.

93%

McDonald’s share of LEED-certified F&B spaces in China

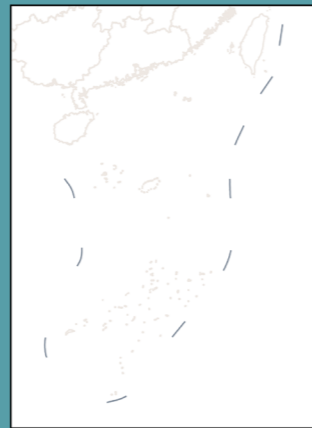
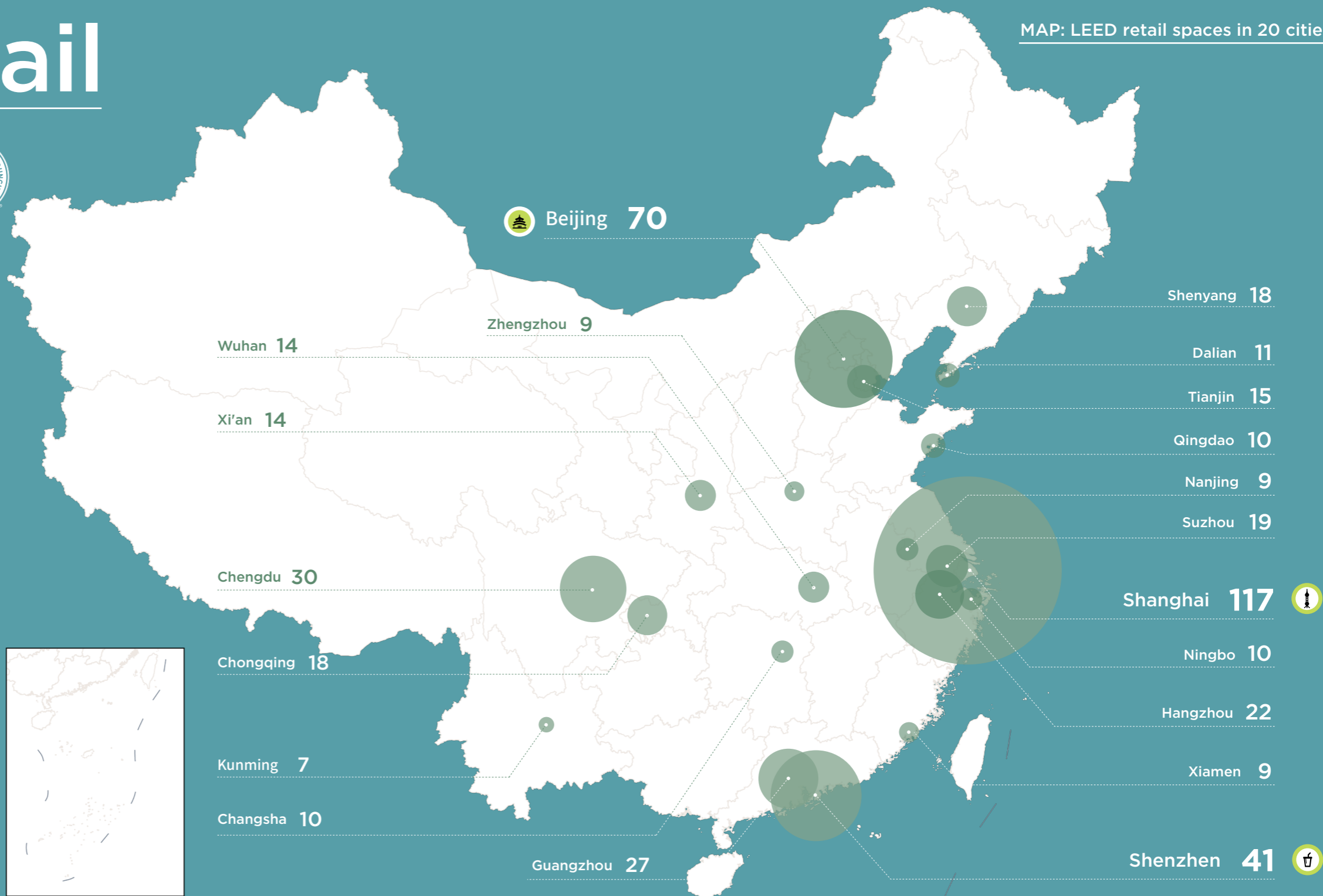
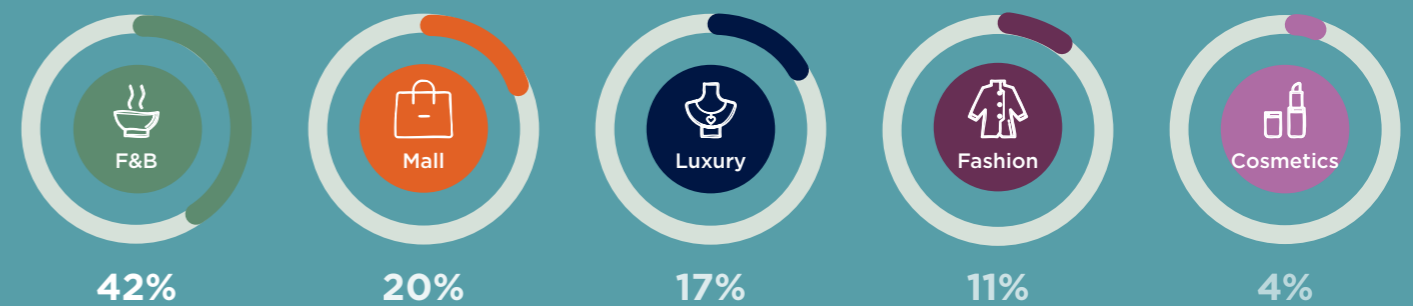


FIGURE: LEED retail projects in China, by type

\*Data as of July 31, 2020



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