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Retail Trends 2024

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Breathing Life into Leisure:

Retail Trends in a Dynamic Environment

Consumers are faced with a challenging environment in 2024. They desire escape, entertainment, and relaxation during their personal time.



The comeback of entertainment

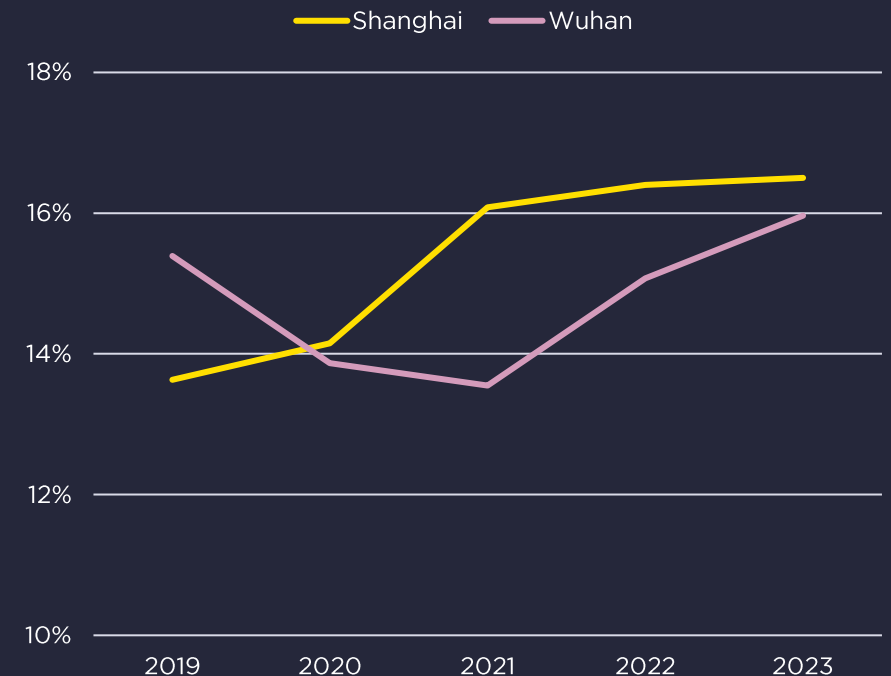
In 2023, there was a robust recovery in tourism, film attendance, and the performing arts. Box office figures in 2023 reached 86% of 2019 levels, indicating consumers' willingness to reconnect with entertainment experiences. Leisure and activity-based tenants, including gyms, live houses, and role-playing games venues, have observed a consistent increase in mall locations in recent quarters. Major cities, such as Shanghai and Wuhan, now allocate around 16% of total shopping mall space to leisure and entertainment areas, reflecting a noticeable trend towards dedicating substantial portions of retail spaces to leisure activities.

The retail landscape is also witnessing the emergence of new brands and concepts within traditional retail categories like

sports and child-related spaces. Family entertainment zones, theatres, art instruction, and specialized sports are currently driving leasing demand in the child-related sector.

A recent emphasis on creative expression and heritage is also becoming a central focus, fostering the expansion of art and exhibition spaces. Cities like Shanghai and Beijing are experiencing the development of distinctive art districts, representing a growing emphasis on experiential and cultural offerings within the retail environment, rather than solely focusing on the packaging and marketing of the product.

Share of leisure tenants in key shopping malls



Source: Savills Research

Locating Growth:

Exploring Retail Sales Surges Across Categories

Retail sales experienced a notable resurgence across various consumer categories in 2023. The F&B and apparel sectors demonstrated robust growth, exceeding 15%, albeit from a comparatively lower baseline in 2022. Concurrently, jewellery and sports goods retailers achieved growth surpassing 10%, despite a significantly higher baseline in the preceding year.

The sectors exhibiting the most pronounced sales rebound also witnessed a simultaneous transformation in store footprint. F&B, for instance, secured a notably larger proportion of newly-leased spaces in 2023 compared to the previous year, with increases of 1.0 percentage points in Shanghai.

Consumers are increasingly expressing interest in emerging niche product categories, such as fishing and skiing products within the sports sector, perfumes

in the cosmetic and skincare sector, and instant cameras in the electronic products sector. These products experienced a more than twofold increase in their import values compared to 2019. Despite their relatively modest store sizes, these trends underscore the existence of undersupplied segments within the retail market, offering substantial potential for dynamic growth.

Furthermore, the importation of coffee and whiskey has more than doubled since 2019, indicating sustained consumer interest. Innovative coffee shop concepts continue to proliferate, appearing ubiquitously, while bars are becoming increasingly mainstream and integrated into mall tenant mixes. This trend not only enhances footfall but also extends operating hours. Additionally, health-oriented beverages, such as probiotic yogurt and traditional Chinese-style tea drinks, are garnering attention from private capital.

Selected categories import growth rates, 2023 vs 2019

111%

Unroasted coffee

164%

Instant print cameras

113%

Whisky

108%

Fishing rods

85%

Perfume and cologne

135%

Ski boots

Source: CEIC

Active categories and brands



F&B

- Creative tea & coffee drinks
- Bar
- Yogurt

Fashion

- Vintage shop
- Skiing
- Outdoor

General retail

- Perfume
- Smart homes
- Resin models kit

Service

- Barbershop
- Pet care

Entertainment

- Paddle board
- ACGN
- Live House

Beyond Bargains: Unveiling the True Value-For-Money Trend

Contrary to the notion that consumers might curtail spending due to an economic slowdown, they are increasingly engaging in comprehensive product research, leading to a reduction in the frequency and modes of purchasing. This lifestyle shift indicates heightened consumer rationality post-COVID, with 92% of consumers acknowledging a more prudent approach to consumption, as reported by iResearch. Consumers will persist in emphasizing and prioritizing value for money.

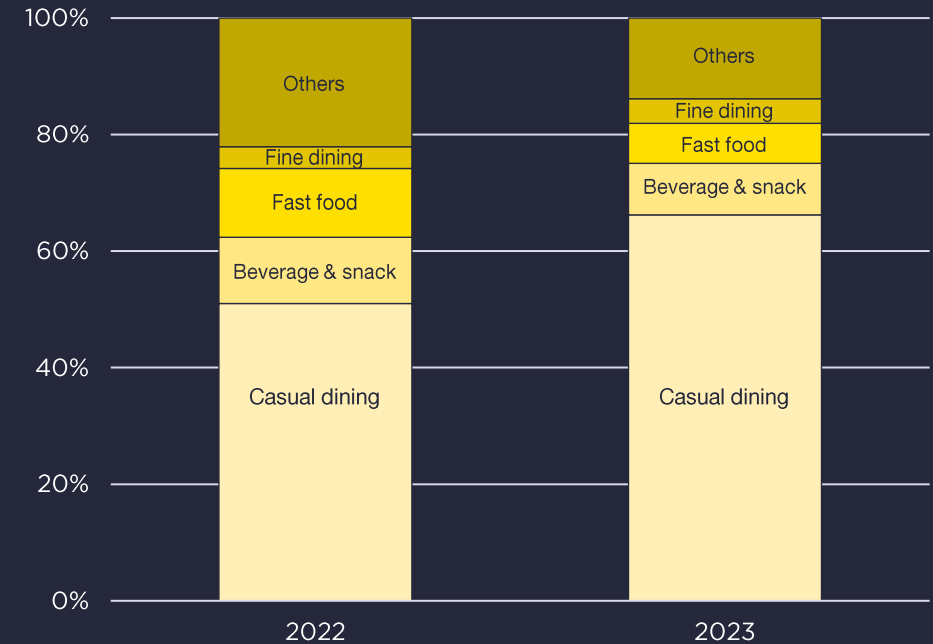
The success of Luckin and Cotti in the coffee market cannot be solely attributed to their competitive pricing strategy, although it likely played a role. Both brands offer a creative product line, a significant attraction for coffee enthusiasts. In the gym sector, while

mass-market mainstream gym chains encounter challenges, brands such as Pure and Fusion, with higher membership fees, maintain popularity.

In the F&B sector, the share of new leases for fine dining declined in 2023 in Shanghai. In contrast, casual dining not only opened more spaces than lower-priced fast-food chains but also experienced a boost in Shanghai, particularly driven by local ethnic Chinese cuisines.

Consumers are actively seeking value for money, combining considerations of quality, taste, and utility. The essence of a brand and the substance of its products have become more crucial to consumers than the packaging and marketing of the product.

Share of new leases in F&B



Source: Savills Research, based on samples in Shanghai

The Rise of Founder Brands:

A New Wave in Retail Leadership

An entrepreneurial wave is sweeping through the retail market in China, driven by domestic startups aiming to fill niches vacated by larger brands, tap into unexplored consumer desires, and provide education. At the forefront of this movement are founder-led brands, closely aligned with the personality of their founders. While many originate from pop culture, they can also emerge from diverse industries such as retail, dining, and entertainment.

The designation of a brand or store as founder-led typically implies a stronger personality, avant-garde approach, and originality. In contrast to traditional start-ups that often pursue rapid mainstream growth, founder-led brands cultivate a distinct brand personality, fostering consumer loyalty. These products often command premium prices, and the business prioritizes maintaining

brand integrity over-aggressive expansion.

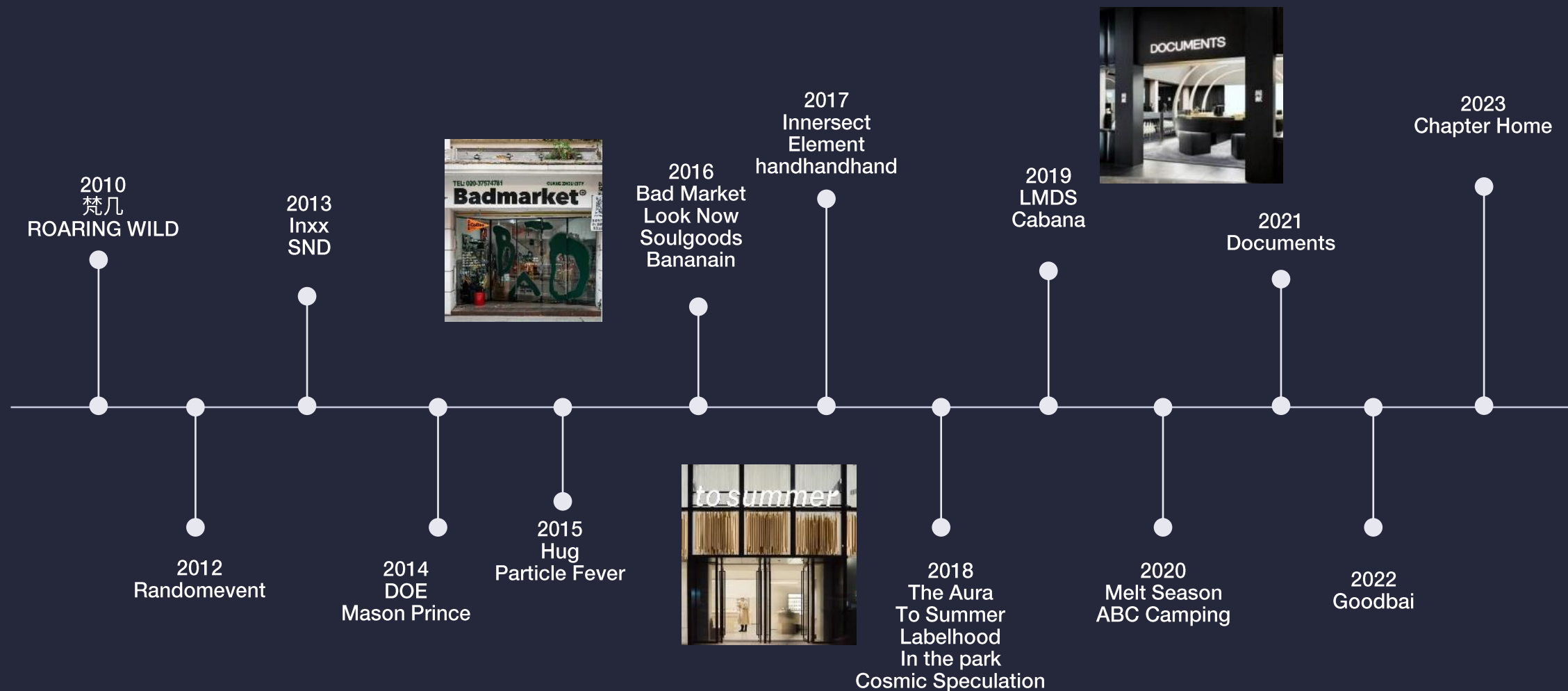
The rise of founder-led brands in China is intricately connected to the advanced social media landscape. Leveraging social media and content-driven online communities, these brands not only amass followers and potential consumers but also emphasize community engagement and freshness through offline spaces. Notably, brands like Badmarket exemplify this unique approach, establishing various offline stores, including street shops, pop-ups, non-standard businesses, and shopping mall units, with a significant emphasis on creating a distinctive atmosphere.

Founder-led brands contribute not only to market diversity but also underscore the significant potential of China's local brands in terms of quality, aesthetics, and trendsetting.

This trend is fuelled by a growing local consciousness. Given the positive reception these brands have garnered and their relatively limited scope, there appears to be significant potential for expanding this category to cater to diverse consumer groups. Consumers are no longer easily categorized based solely on demographics but must also be considered in terms of beliefs, value systems, online habits, influencer impact, educational background, spending habits, family structure, emotional traits, life experiences, and more.



Local Chinese brands are increasingly competitive amongst the younger generation across all sectors from streetwear to lifestyle



Mall Dynamics in Flux:

Rethinking Strategies in Changing Times

Prime shopping malls remain attractive to mainstream brands, but retailers are increasingly exploring beyond traditional locations for stimulation.



With the proliferation of retail projects across the city and the continuous growth of e-commerce, consumers no longer have to travel to the city centre to fulfil their needs. In both centrally located high-end malls and suburban regional malls, consumers within a 3km radius of the project now constitute a larger percentage of shoppers compared to 2019. Given the reduced catchment area, brands must invest more time in understanding the consumers in the immediate vicinity of a project.

Prominent projects in non-core areas are addressing consumer demands for convenience and freshness. Sports brands like Lululemon and Saucony, as well as beauty brands such as Estee Lauder and Jo Malone, are establishing new stores in the suburbs of first-tier cities while exploring opportunities in non-core areas of second-tier cities.

Despite the recovery of footfall levels in

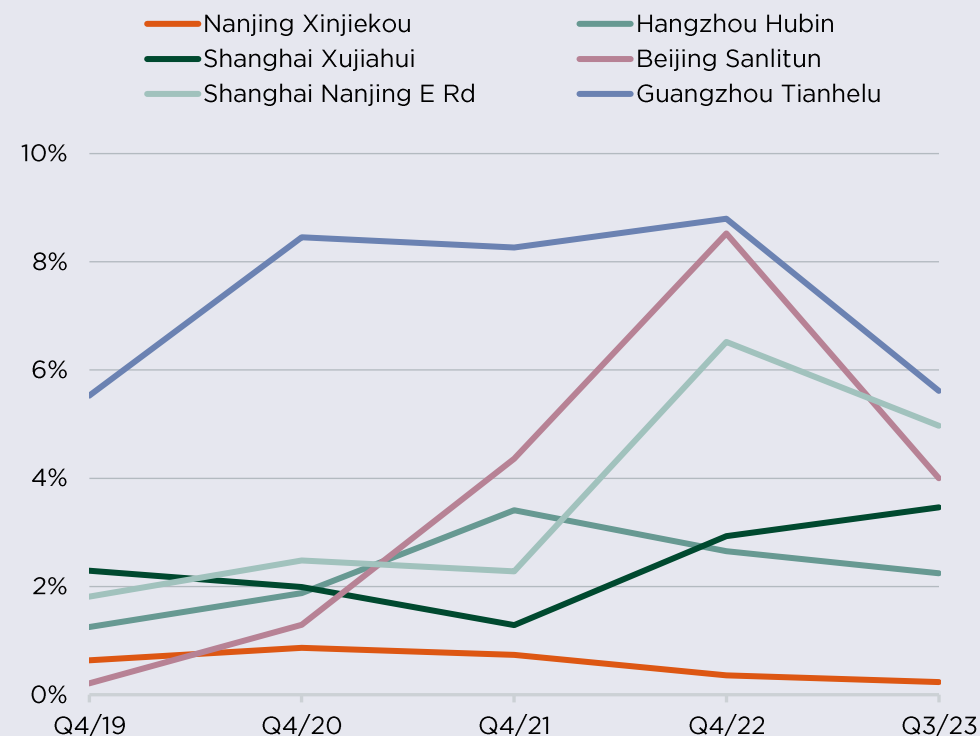
city centres, this does not necessarily translate into increased tenant demand. Only 41% of core retail areas had vacancy rates below 5% in Q3/2023, a decrease from two-thirds in 2019.

Interestingly, the backstreets and side roads of city centres are gaining popularity among retailers, marking a reversal of the trend observed in China over the last two decades. The increased acceptance of these locations fosters a more organic, varied, and experimental atmosphere compared to some of the more sanitized and homogenous shopping mall spaces.

3.0%

Increase in share of consumers within 3km of the project compared to 2019

Selected areas with lowest vacancy rates



Source: Savills Research

The quieter and less bustling backstreets in city centres are ideal for brands prioritizing meaningful customer engagement.

For brands emphasizing placemaking and deeper customer engagement, the quieter backstreets of city centres provide an excellent choice. Outdoor and streetwear brands, in particular, have displayed notable interest in these locations. Here, stores enjoy greater flexibility in operating hours and service offerings, enhancing their reputation through active social media engagement.

Luxury brands, traditionally concentrated in mall locations, are now extending their presence to the streets through collaborations with local brands, pop-ups, and art exhibitions. The diverse retail mix in backstreets or secondary locations transforms a visit to the city centre into a more enriching experience beyond shopping, dining, partying, and watching

movies. Shoppers can explore exhibitions, attend gym or yoga classes, or stroll through historical areas while savouring a cup of co-branded coffee.

Retailers are actively pursuing opportunities in these high-foot-traffic, iconic locations while simultaneously promoting online and offline channels for engagement and sales. The retail industry is evolving rapidly, necessitating adaptation from planners, retailers, landlords, and other stakeholders to meet shifting consumer demands.



Suited to outdoor and lifestyle brands



Freitag

The world's first directly-operated overseas store, a four-story building, in addition to sales, also provides alterations, recycling, and exchange services.

Shanghai

Now Space



Patagonia

The brand's first store in southwest China. The second floor will host sharing sessions, movie viewings and other activities for local outdoor enthusiasts

Chengdu

Citang Street



Undeafated

Preserving Guangzhou's street culture while incorporating elements of American sports football, the raw design creates a trendy atmosphere.

Guangzhou

Dongshankou



Nest Robe

The first floor is a library, while the second floor is a clothing sales area, with Japanese wooden design combined with retro movie décor creating a relaxed and atmospheric space

Hangzhou

Mantoushan

More lifestyle, less consumerism



Fendi

Fendi partnered with HeyTea to launch a co-branded drink as part of the brand's month-long "Hand in Hand" exhibition.

Beijing

Temple Dongjingyuan



Louis Vuitton

Louis Vuitton opened a pop-up space 'Nóng Hó, Shanghai' at the newly-built Fotografiska photography museum, a collection of bookstores, cafes, exhibitions, and more.

Shanghai

Fotografiska



Kenzo

KENZO opened pop-up flower shops in Chengdu and Shanghai with Boke begonia flower elements.

Chengdu

Regular



Prada

Prada launched the Fall/Winter 2023 "Seed Program" at Wilde Florists in Shanghai and five flower shops in Qinhuangdao, Guangzhou, Chengdu and Beijing to distribute flower seeds.

Shanghai

Wuyuan Road

Revolutionizing Retail Spaces:

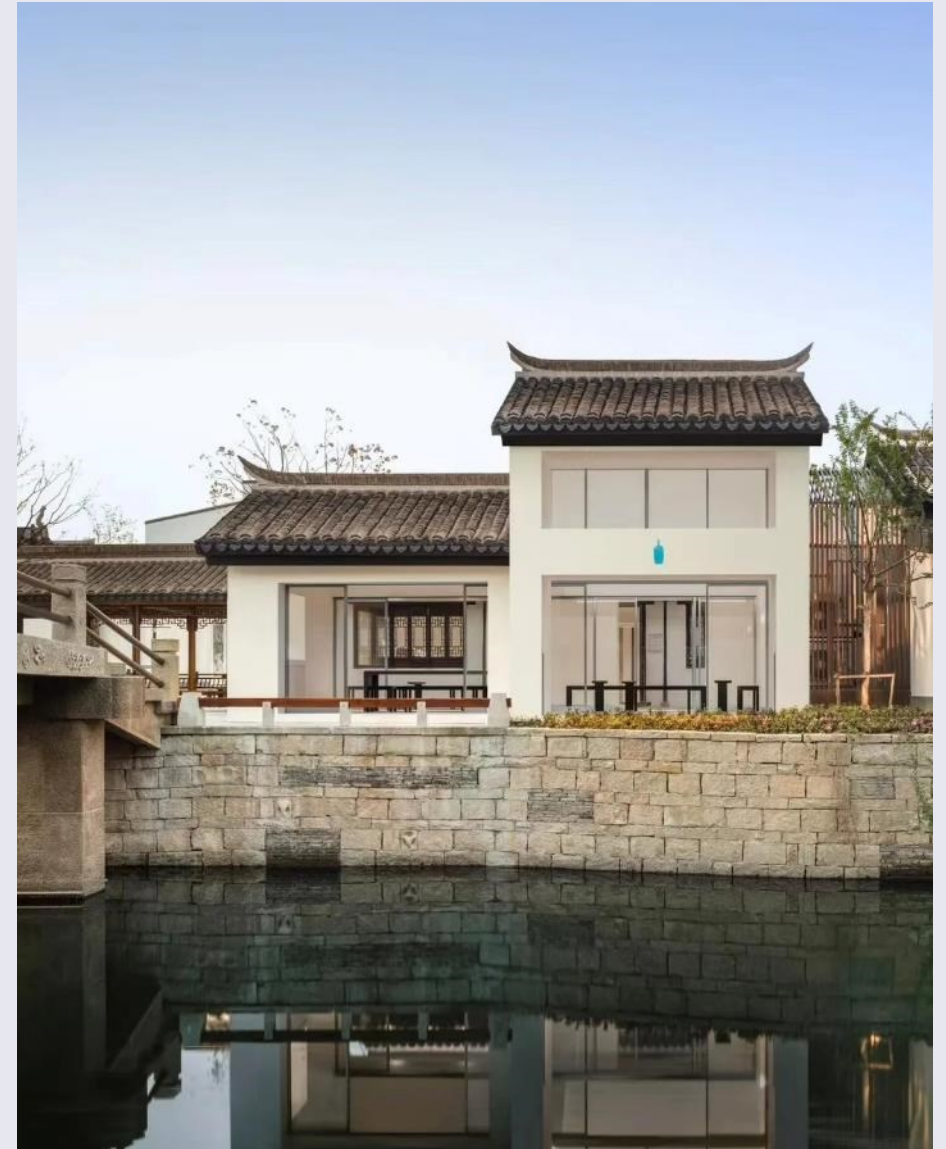
Thinking Outside the Box

The retail landscape in China has evolved significantly, transitioning from street stores to department stores and ultimately, shopping malls, with the latter emerging as the predominant format. Anticipated in the next five years is a substantial addition of retail space, exceeding 700,000 sqm in Shanghai, Shenzhen, and Wuhan each by 2024. The prevailing formats are not only characterized by repetitiveness and monotony but also face challenges from the demanding economic environment. Consumer habits have changed, with a heightened awareness of mental health and physical well-being.

In response to these dynamics, non-traditional formats are emerging, driven both by necessity and consumer demand.

Many of these projects stem from urban rejuvenation initiatives, where physical constraints such as building preservation, plot size, and height restrictions contribute to unique architectural renderings, creating distinctive aesthetic spaces and unparalleled experiences.

These unconventional spaces serve as suitable venues for product displays, pop-ups, exhibitions, and co-branded activities, leveraging the potential for a significant impact, particularly if content disseminates on social media and becomes viral. Beyond showcasing brand creativity, these spaces cater to the preferences of younger consumers who actively seek fresh and unique experiences.



Open plan – at one with nature



Birdland

Located in Hangzhou's Liangzhu Cultural Village, this cultural and artistic retail project preserves the villagers' heritage, fosters a lively community, offers art experiences, and promotes quality living to attract tourists.

Hangzhou

21,300 sq m

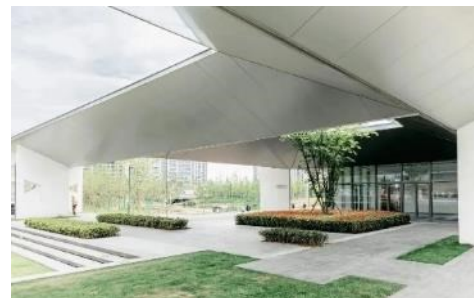


Cangjie

Integrating Suzhou-style low-density garden open spaces with underground retail areas, the project showcases a diverse range of high-end retail brands.

Suzhou

140,000 sq m



Panlong Tiandi

Restoring the ancient water town to its former glory and incorporating a new facade, this project is positioned as an urban micro-vacation destination. It boasts numerous fashion brands, along with amenities such as a family-friendly park, sports facilities, art exhibitions, and festive events.

Shanghai

48,000 sq m



Longhua Hui

The open-plan project highlights youth trends and local culture, providing consumers with a more diverse social space. It incorporates a traditional Chinese cultural area, exhibitions, and themed stores showcasing Longhua's cultural heritage.

Shanghai

88,000 sq m

Reinvented: Compact, versatile, community-centric



The Lightbox

Kerry has converted Phase 1 of Kerry Everbright City (formerly the Pacific Department Store) into a versatile business space that seamlessly integrates both retail and office areas, providing diverse possibilities within a compact architectural scale.

Shanghai

42,000 sq m



The Box

The project showcases meticulously curated brands and products, employing gamification and personalization to offer consumers a heightened and immersive experience.

Beijing

36,000 sq m



Dongjiao Memory

This project integrates an art gallery, green park, and skateboard park featuring a carefully curated array of innovative and niche brands, covering areas like street fashion, unique dining, subcultures, and entertainment experiences.

Chengdu

200,000 sq m



Star Spark 1926

The façade seamlessly integrates contemporary styles with iconic Guangdong traditional elements, extending the public space along the main frontage of the retail street and cultivating a vibrant commercial community ambience.

Guangzhou

35,000 sq m

Enclosed Malls – Dominated by leading domestic developers in 2023



Nanjing IFC

Developed by Sun Hung Kai, Nanjing IFC is a mixed-use project in Hexi CBD and the second luxury project in Nanjing

Nanjing

96,000 sq m



Binjiang MixC

A leading fashion and culinary project situated along the river, integrating ecological, humanities, and art aspects with commerce. The retail is dominated by affordable luxury, outdoor, and designer brands.

Wenzhou

140,000 sq m



Jingxi Joy City

Targeting families and younger consumers, focusing on sports, outdoors and leisure, given its Olympic legacy combining the first cycling station in western Beijing and many outdoor trendy brands.

Beijing

110,000 sq m



Lanzhou Wanda Mall

A fashionable retail and entertainment centre in Northwest China, integrating indoor parks including Water World, leisure and sports parks and rainforest parks, to create a new micro-vacation lifestyle.

Lanzhou

320,000 sq m

An aerial photograph of a beach with turquoise waves crashing onto the sand. The water is a vibrant blue-green, and the sand is a light beige. The waves are breaking in a rhythmic pattern across the frame. In the top left corner, there is a small yellow rectangular graphic element.

Micro Vacations and Macro Impact:

A Fusion of Travel and Retail

Domestic travel, including staycations, is propelling demand. Integrating this with retail and culture could be inspiring.

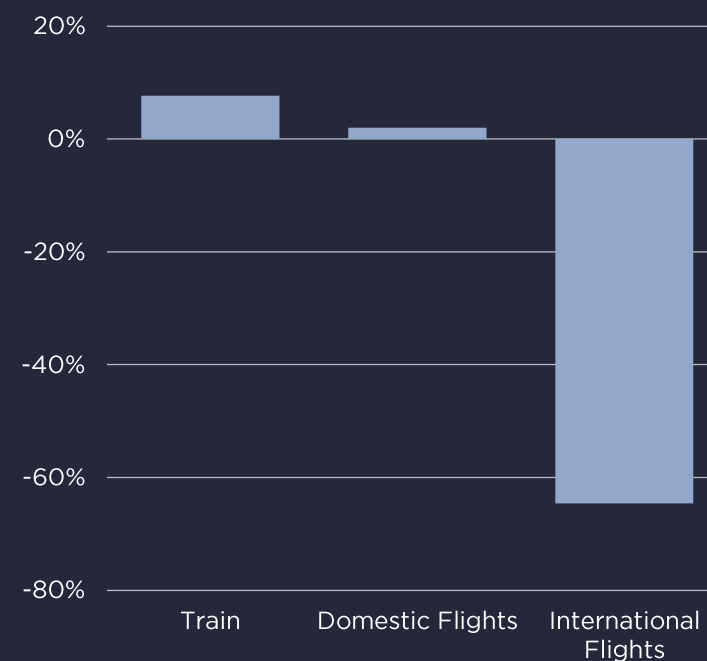
Domestic travel has rebounded swiftly in China, with monthly domestic air and train figures surpassing 2019 levels in the second half of the year. However, a slow start in 2023 has resulted in domestic tourists' figures remaining 18.6% below than 2019, despite a notable 93.3% YoY growth. International travel's recovery is comparatively slower due to limited flights, safety concerns, and visa issues.

The rapid revival of domestic tourism has positively impacted business environments in leading cities and popular tourist destinations like Hainan and Yunnan. Key developers are capitalizing on this trend, securing development opportunities in these locations. Hainan's ambition to become a free-trade port by 2025 has directed attention to Sanya. Ongoing construction projects, such as China Resources' Sanya MixC and Swire and CDFG's Taikoo Li, along with DFS's planned completion of DFS Yalong Bay

with Shenyang Group by 2026, will significantly transform Sanya's retail market. Beyond Hainan, developments like Lhasa Wangfujing Shopping Centre and Merlin Group's opening of Legoland theme parks in Shenzhen, Shanghai, and Sichuan in 2024 are indicative of broader growth.

The evolving travel landscape includes a rise in Bleisure (Business & Leisure), staycations, urban exploration, and spontaneous city wandering without a specific agenda. Tourists increasingly seek authentic local experiences, exploring both natural and historical landscapes while discovering unique shops and restaurants. In response, developers and landlords are targeting these micro-vacation groups, integrating retail and cultural tourism experiences to create a more relaxed and slow-paced leisure scene, offering novelties to cater to evolving preferences.

Average monthly growth of passengers in train and air, 2023 vs 2019



ESG in Retail:

Beyond Green, Towards a Sustainable Future

Global luxury brands are at the forefront of ESG progress in the retail industry. LVMH is reported to have reduced energy consumption by 10% and GHG emissions by 11% between October 2022 and October 2023.

Luxury brands accounted for 66% of all LEED-certified retail spaces in 2023. Gucci, Burberry, and Cartier added LEED certification to 10 more stores. Skincare and cosmetic brands, particularly those under L'Oréal, such as Kiehl's, also secured LEED certification for their stores.

Brands are also considering more than just their physical retail footprint, but sustainability across their entire supply chain. Kering achieved 95% traceability of key raw materials, while Estée Lauder's Innovation and Research Centre in

Shanghai received dual LEED and WELL Platinum certification. Rothys' China factory achieved LEED certification, while also becoming a TRUE zero-waste building, integrating environmental protection into all stages of production, packaging, and transportation.

In commercial real estate, the next step in ESG development involves greater collaboration between tenants and landlords. This could be through green leases, for example, which outline sustainability-linked targets and measurable key performance indicators as part of the lease agreement. Both sides benefit from increased tracking and reporting of the building's performance



Running towards Retail REITs:

A New Era in Asset Monetization

China's Securities Regulatory Commission (CSRC) announced preparations to expand REITs to retail assets in March 2023, including department stores, shopping malls, and farmers' markets. The return requirement for REITs backed by property rights was also lowered to 3.8% from 4.0%, broadening the eligible pool.

The approval of the first four retail C-REITs at the end of 2023, with assets owned by China Resources, Jinmao, SCPG, and Wumart, marks a new era in China's REITs market. The inclusion of retail assets into REITs offers an alternative exit for landlords to exit and monetise their investments.

Assets of the first four retail C-REITs

| | Qingdao MixC | Xixi In City | The Mall of Splendors | Wumart portfolio |
|-------------------------|--------------|--------------|-----------------------|------------------|
| GFA (sq m) | 301,000 | 144,000 | 103,000 | 78,000 |
| City | Qingdao | Hangzhou | Changsha | Beijing |
| Prime/Non-prime | Prime | Non-prime | Non-prime | Non-prime |
| Floor | B4-6F | B2-4F | B2-4F | 1F |
| Opening year | 2015/2021 | 2013/2019 | 2016 | 2003-2012 |
| Valuation (RMB billion) | 8.20 | 3.98 | 1.08 | 1.04 |

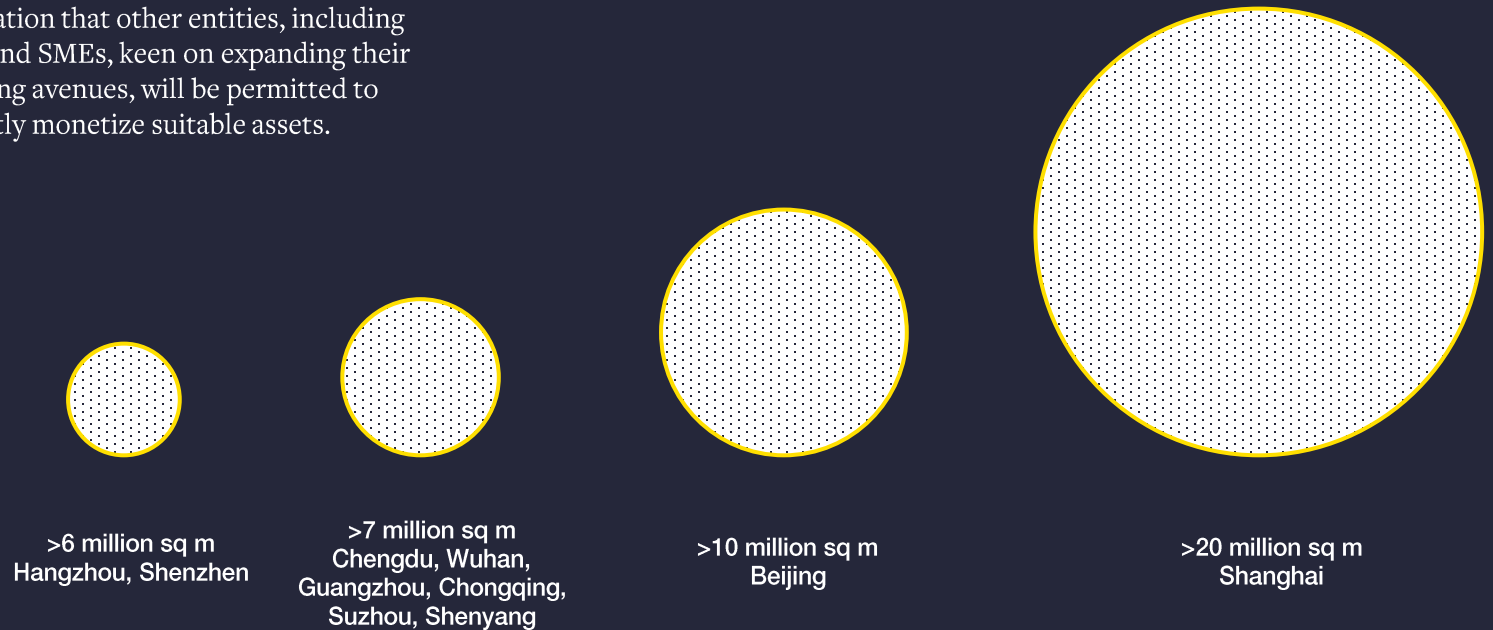
The incorporation of retail assets into the REIT framework enhances the variety of investment options and provides investors with the ability to divest from core assets while retaining management rights. This approach facilitates the reduction of debt levels and imposes greater accountability on asset performance and maintenance quality.

In the top 20 cities, approximately 140 million sqm of self-owned shopping malls and department stores are present. Both Shanghai and Beijing boast over 10 million sqm, with Chengdu, Wuhan, and Guangzhou each exceeding 7 million sqm. Unlike some other asset classes, the performance of retail assets is notably correlated with economic conditions and daily life. In the United States, retail assets constitute the third-largest REIT asset class, comprising 14% of the market valuation, ranking behind industrial and multifamily assets.

Considering the nascent stage of the REIT market in China, the emphasis remains on stabilized, high-quality projects. Sponsors are likely to be renowned national developers with robust asset management capabilities, exposure to leading first- and second-tier cities, stable cash flow, and strong risk management proficiency.

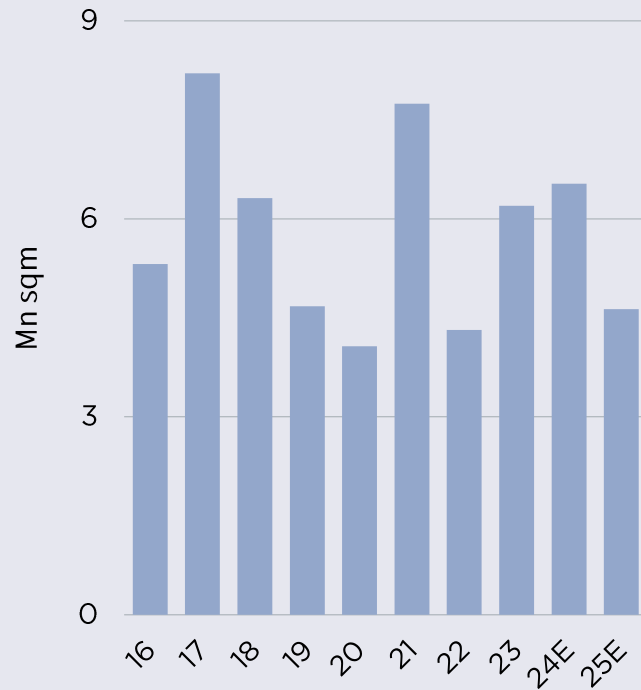
In the near term, developers burdened with excessive debt are unlikely to qualify for C-REITs. However, there is an expectation that other entities, including POEs and SMEs, keen on expanding their financing avenues, will be permitted to promptly monetize suitable assets.

Retail stock in selected cities, 2023



Asset class forecast

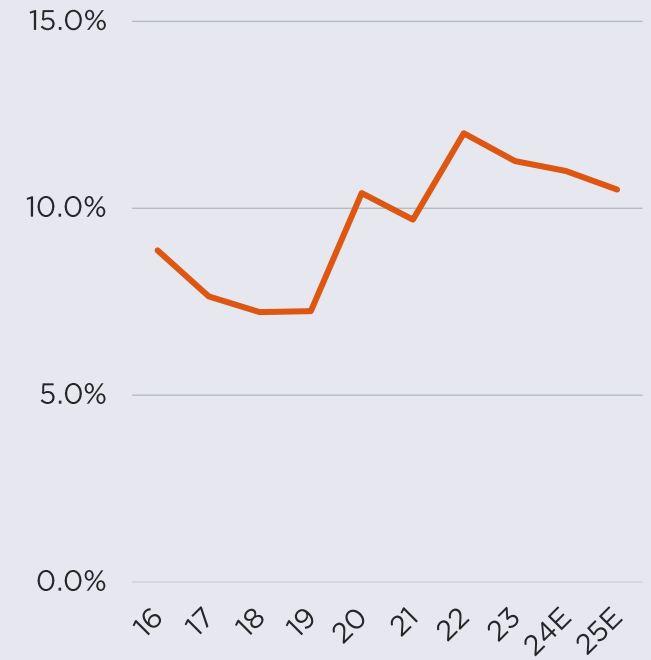
Supply is significant.
11 key cities will receive 10.2 mn sqm of retail supply over the next two years



Rents remain depressed.
Projects will see greater performance differentiation in the future.



Vacancy rates are expected to improve going forwards



Source: Savills Research



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