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CUSHMAN & WAKEFIELD
戴德梁行

EXPERIENCE MATTERS

Insights on China’s retail market in the era of new consumption

CONTENTS

Executive summary

China’s consumer market is changing. Retailers and landlords of retail properties in China are currently exploring new market segments and emerging demand opportunities to create new scenarios that realise value.

Between October 2021 and March 2022, Cushman & Wakefield surveyed 2,491 consumers in 18 cities in China and interviewed a number of executives working for retail brands. By continuously observing the latest trends in China’s retail market in the era of new consumption, Cushman & Wakefield is able to have an informed opinion on the latest market knowledge. Cushman & Wakefield can then apply this market intelligence to assist retailers and owners of shopping centres as they constantly look to improve their business strategies so that they are better placed to capitalise on any new commercial opportunities that arise in China’s retail market in the future.

Affected by multiple factors, including China’s economic development, population change, the expansion of the Internet and the spread of smartphones, COVID-19 and consumer behaviour, to name a few, consumption in China has transformed. Alongside this transformation, our report examines:

- China’ s “new middle class” — and how their consumption pattern has changed；
- “Generation Z” — and why this generation will become the main driving force for consumption in China in the future, and；
- Post-COVID-19 — and how shopping centre consumer behaviour has changed.

Additionally, China’s retail market continues to introduce new business models, new types of services and innovative retail formats to adapt to changing consumer groups and consumption patterns. Our report also considers the following five major trends which have occurred in China’s retail market, and they are:

- Online ‘guochao’ (or national trend) brands are now opening brick and mortar stores;
- Lifestyle brands are in the ascendancy;
- The Metaverse will lead a new wave in retail and social experience;
- The ‘socialising +’ scenario is now empowering brands and shopping centres, and finally;
- Tourist attraction-type shopping centres are on the rise.

Prologue

The continuous upgrading of Chinese consumption and the wave of modern digitisation has brought both new opportunities and challenges to retailers and landlords of shopping centres in China. The relationship between brands, online/offline retail and consumers is being reshaped, with consumers having become the centre of the entire industry ecosystem. As the consumer scene becomes more diverse, the way brands and consumers communicate will also become more varied and interesting. Alongside this transformation, Cushman & Wakefield Retail Services will continue to be deeply involved in the development of the Chinese retail market. Additionally, the team will continue to help consumer brands and shopping centre landlords to upgrade their real estate portfolios and assist in keeping their business models relevant at any given time.

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With the development of China's economy, consumer demand and living and purchasing habits have changed perceptibly. Retail brands and shopping centres have continued to actively seize the business opportunities brought about by new consumption, not only by adopting new technologies to realise the digitalisation of all aspects of retail and by improving the efficiency of the whole value chain and by reducing operating costs, but also by actively innovating and formulating new business models to create refined retail services, retail products and retail space. Operating in this market for many years, Cushman & Wakefield has deep insight into the dynamics of China's retail market and is often called upon by local governments, investors, developers, retail operators and retailers alike, to provide professional advice and services on all aspects related to their retail-related real estate needs.

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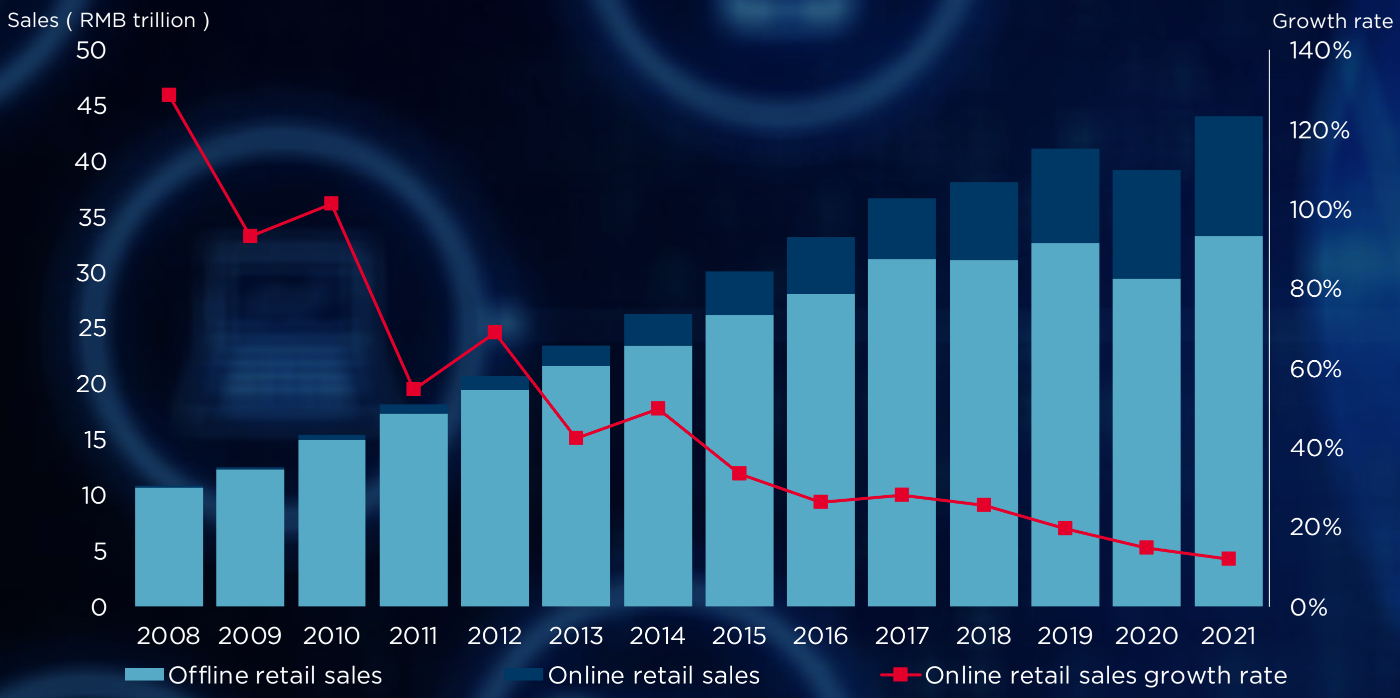
Introduction

With the increase in China's per capita disposable income, the rise of emerging industries and the improvement of the social security system, China's consumer market has further expanded. Consumption has become an important driving force for China's economic development.

The vast size of the market and growing consumer demand will continue to bring new opportunities for retailers and shopping centre operators doing business in China. China is estimated to be the second largest consumer economy as measured in purchasing power parity (PPP) terms. According to the National Bureau of Statistics in China, China's total retail sales of social consumer goods increased from RMB21.03 trillion in 2012 to RMB44.08 trillion in 2021, doubling during the decade (Figure 1).

Figure 1: China's total retail sales of social consumer goods (2008-2021)



Source: National Bureau of Statistics, Cushman & Wakefield Research

According to McKinsey, over the next decade, China is expected to increase its consumption more than any other country, with the expectation that it will generate more than 25% to overall global consumption growth, according to the baseline scenario. Therefore, China is expected to be one if not the most dynamic consumer market in the world.

CHINA HAS ENTERED AN ERA OF NEW CONSUMPTION

China's consumer market is changing. Affected by multiple factors, including China's economic development, population change, the expansion of the Internet and the spread of smartphones, COVID-19 and consumer behaviour, to name a few, consumption in China has transformed. Alongside this transformation, China's "new middle class" – and how their consumption pattern has changed, "Generation Z" – and why this generation will become the main driving force for consumption in China in the future, and the post 2020 COVID-19 period – and how shopping centre consumer behaviour has changed – has to be assessed.

China's "new middle class" — Consumption upgrading

As China becomes the world's second largest economy, the number of middle-class families is growing in China. Today, the middle-income group in China stands at over 300 million people (Figure 2).

Figure 2: The middle-class population is rising in China (2010 and 2018)

Annual household disposable income (2018 real RMB terms)		Urban population in China, mn: 2010	Urban population in China, mn: 2018
Global	>390K	6	16
Affluent	297K-390K	3	10
Mass affluent	197K-297K	10	63
Upper aspirant	138K-197K	34	311
Aspirant	79K-138K	403	257
Lower aspirant	49K-79K	134	89
Poor	<49K	79	72
Upper aspirant & above population, % of total		~8%	~49%

Source: McKinsey Global Institute, Cushman & Wakefield Research

Moreover, it is expected that China's new middle class will exceed 500 million people by 2025. Generation Y (those born between 1980 and 1995) is the main generational group associated with the new middle class in China. This group is followed by Generation X (those born between 1965 and 1980) and Generation Z (those born between 1995 and 2010). Most of the new middle class were born in the era of China's reform and opening-up and one-child policy, are well-educated and married with children (Figure 3).

Figure 3: China's new middle class group profile (2018)

Average age	35
Top 5 occupation	30%TMT | 18% Manufacturing | 11% Finance | 11% Real Estate | 6% Trade
Education background	72% Bachelor degree | 24% Master or Doctor degree | 4% College degree
Marital status	94% Married
Number of children	79% Only-child | 17% 2 or more children

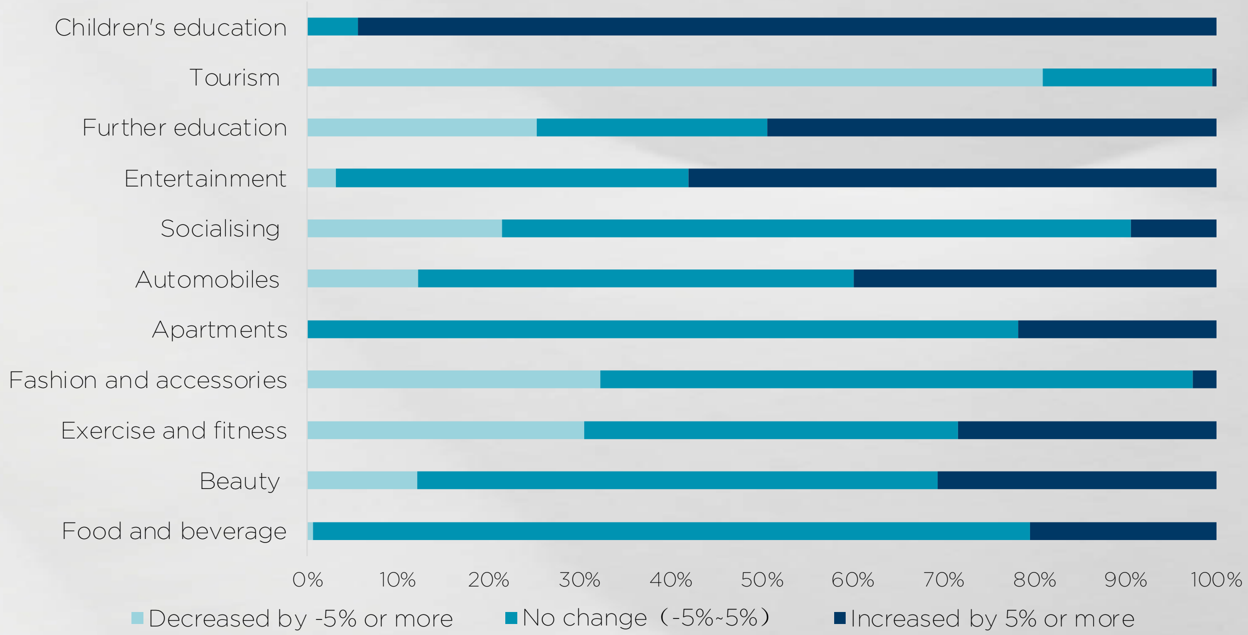
Source: Hurun Research Institute, Cushman & Wakefield Research

The steady growth of China's middle-class group has brought about the upgrading and transformation of consumption, and this change continues. This consumption transformation has the following characteristics:

1 More willing to pay for spiritual consumption

As Generation Y is the largest group associated with China's new middle class, growing up in the era of great changes in China, they are more independent and enterprising. They are no longer satisfied with material consumption but are more willing to pay for spiritual consumption. According to Cushman & Wakefield Research's survey, the top three China new middle-class spend items over the past three years, with an expenditure increase of 5% and more, are children's education, entertainment and further education (Figure 4).

Figure 4: Changes in China new middle class spending in major consumption sectors over the past three years (2019-2021)

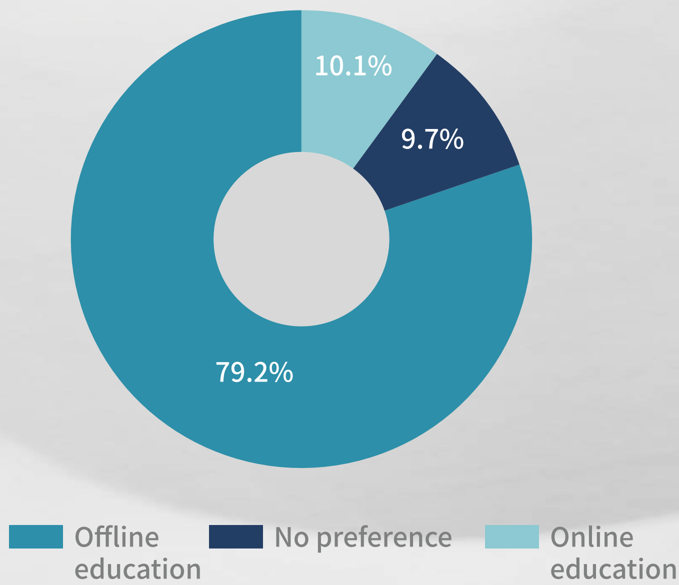


Source: Cushman & Wakefield Research

94% of new middle-class parents have increased spending on their children's education. The education concept of middle-class families for their children has developed beyond the competition of children's academic performance to the competition of children's literacy and vision. Affected by this, coupled with the introduction of the "double reduction" policy (to ease the burden of excessive homework and off-campus tutoring for students undergoing compulsory education), children's quality-oriented education and entertainment, such as science experiment classes, programming, piano lessons, dance classes, football, basketball and horse riding, have been expanding rapidly.

Since quality-oriented education requires not only professional space and teaching aids, but also frequent interaction between teachers and students, according to Cushman & Wakefield Research, up to 79% of new middle-class parents prefer to let their children study in offline training classes compared with online education (Figure 5).

Figure 5: The consumption attitude of middle-class parents in China towards their children's quality-oriented education (2021)



Source: Cushman & Wakefield Research

Subsequently, in 2021, the proportion of children's quality-oriented education sector tenants in some shopping centres in China witnessed an increase.

What's more, 59% of the new middle class increased expenditure on entertainment. Due to the influence of the COVID-19 epidemic, apart from playing online games or watching videos at home, the new middle class have reduced their expenditure on tourism and have chosen to spend their time in shopping centres, parks, exhibition galleries, gymnasiums, cinemas and amusement centres in the same city.

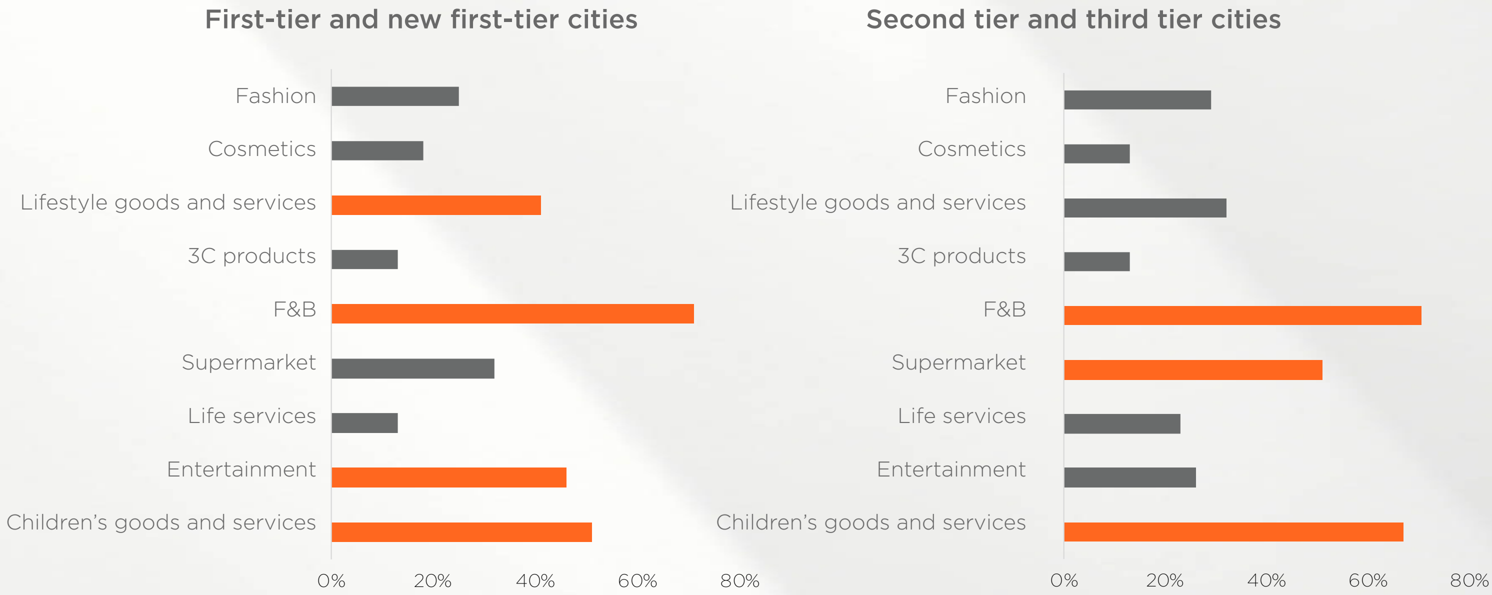
Moreover, amid the sluggish global economic recovery, anxiety among China's middle class is growing. Many cope with career and wealth worries through further education. As a result, 51% of the new middle class increased their spending on education.

2 The consumption concept of consumers in different cities is differentiated

With the development of China's economy, personalised, branded, high-end and experiential retail is growing rapidly. The consumption concept of the new middle class in first-tier, new first-tier, second-tier and third-tier cities has diverged.

When consumers visit shopping centres in first-tier and new first-tier cities in China, according to Cushman & Wakefield Research, the main consumption categories they are attracted to are food and beverage (F&B), children's goods and services, entertainment and lifestyle goods and services (Figure 6).

Figure 6: The consumption categories the new middle class are attracted to when shopping in shopping centres in China (2021)



Source: Cushman & Wakefield Research

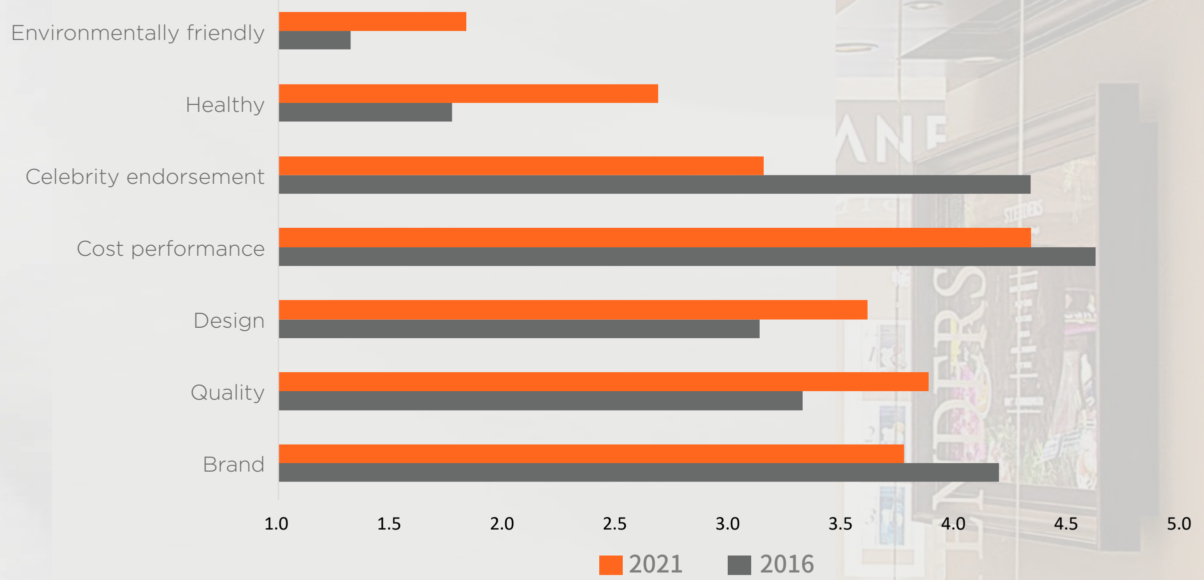
This shows generally that in the mind of the new middle class in first-tier and new first-tier cities in the country, the function of the typical shopping centre has been further transformed into a place for recreation and social interaction.

In contrast, when consumers visit shopping centres in the second-tier and third-tier cities, the main consumption categories are F&B, children's goods and services and the supermarket. Some supermarkets and new retail brands have set up dining areas, introduced some well-known local food and have made food on-site to improve consumer shopping convenience and the experience. Unlike consumers in first-tier and new first-tier cities, who often buy fresh food and semi-finished food online, consumers in second-tier and third-tier cities have more time on their hands and prefer to shop at places with local characteristics.

3 Advocating a healthy, environmentally friendly consumption concept

The consumption concept of the new middle class has returned to rationality in China. They are no longer willing to pay a hefty premium for the brand but now pay attention to what the product or service means for health and the environment. According to Cushman & Wakefield Research's survey, compared to five years ago, today, the major factors, such as quality, design, health and environmental sustainability, are more and more important when it comes to the purchasing decisions by consumers in China (Figure 7).

Figure 7: The major factors for consumers to buy products in China (2016 and 2021)



Note: 1 is very unimportant; 2 is unimportant; 3 is of medium importance; 4 is important; 5 is very important.

Source: Cushman & Wakefield Research

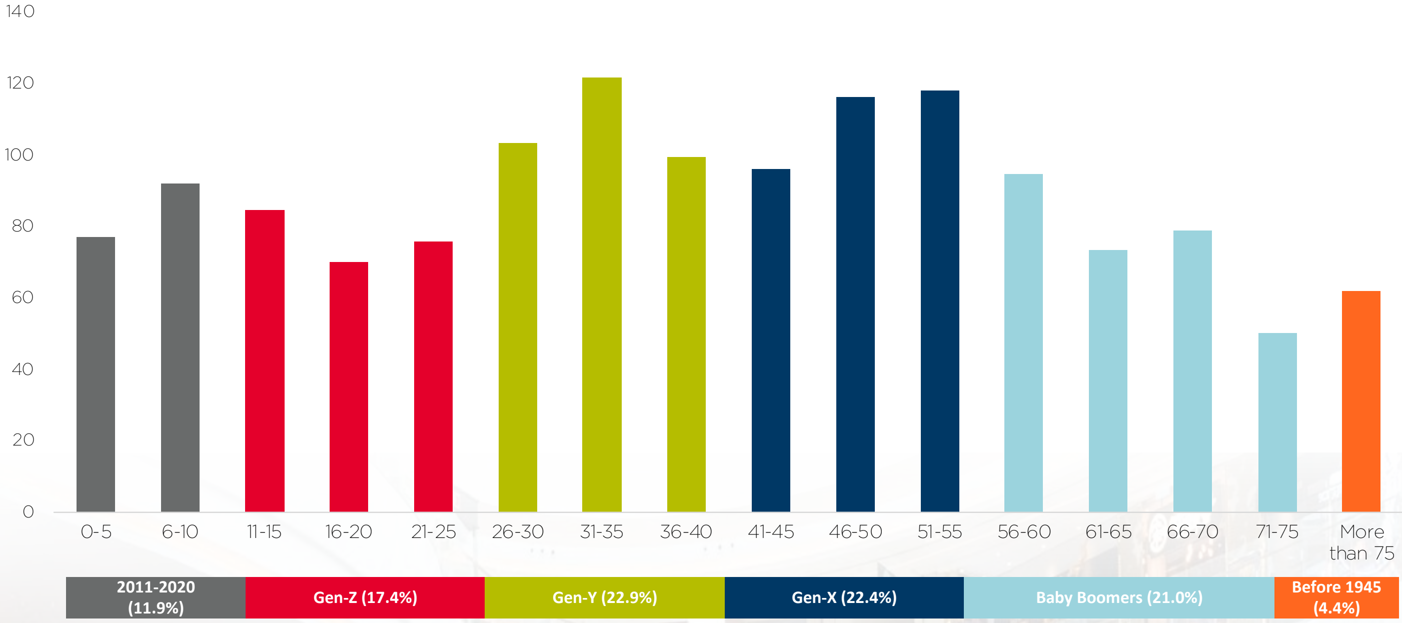
Health and environmentally friendly products, such as new energy vehicles, smart energy-saving electric appliances, clothes with sweat-absorbing and breathable fabrics, low-fat food, sugar-free drinks, non-fried snacks, etc., are gradually more sought after by China's new middle class. Fitness in the gym and other indoor and outdoor sports activities have now become the daily leisure pursuits of the new middle class. In particular, due to the successfully held Beijing Winter Olympic Games in 2022, winter sports have changed from being minority to mass sporting pursuits in China.

As the proportion of the middle class continues to rise, the trend of consumption upgrading will become more prominent in China. Brands and retail real estate developers will continue to explore new technologies and business models to create more consumer value based on the upgrading of middle-class consumer demand.

“Generation Z” — To become the main force for consumption in the future

Globally, the population of Generation Z has reached 2.47 billion, accounting for 32.1% of the world’s population – the largest generational group in the world. According to statistics from The Seventh Population Census in China, in 2020, there were about 265 million people counted as Generation Z in China, accounting for 17.4% of the total population (Figure 8).

Figure 8: Population age structure according to the seventh population census in China (2020)



Source: The Seventh Population Census in China, Cushman & Wakefield Research

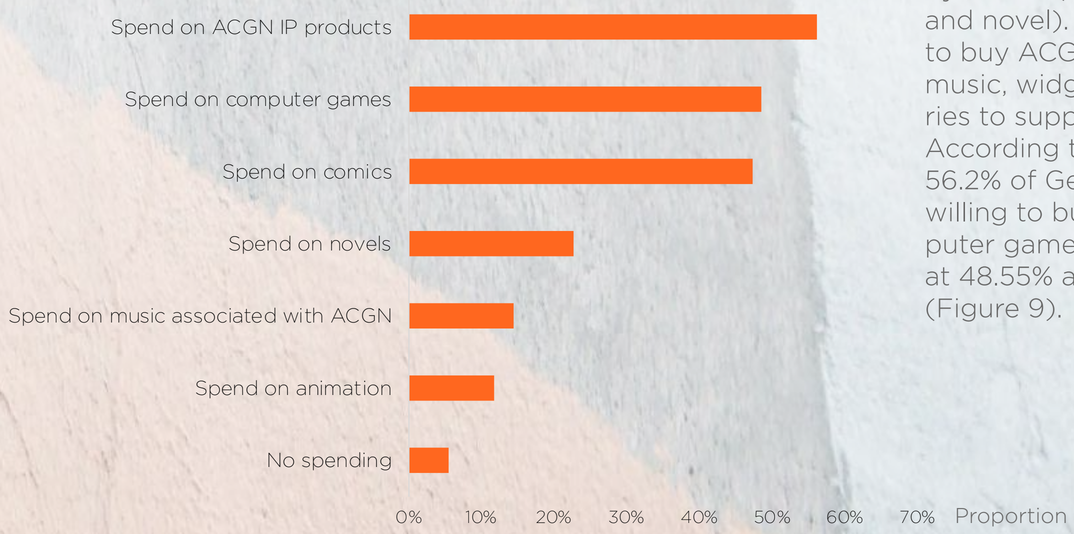
Generation Z was born in the era of China’s economic boom and the popularisation of the Internet, and their general lifestyle has undergone a qualitative change. Today, the Internet and digital products are part of Generation Z ’s daily life. This group of people spend more than five hours per day online. In addition, they have enjoyed a higher material standard of living since birth, have strong consumption strength and have an advanced concept of consumption.

1 Focus on the purchase experience and quality

With China's economic boom and technological progress in the 1990s and 2000s, Generation Z has more consumer choice open to them than previous generations in China. This group is willing to pay more for a quality product and an enhanced consumption experience. Additionally, different from other generations in China, Chinese Generation Z's interests are more diverse, personalised and avant-garde.

For Generation Z, content creation, in the form of short videos, pictures and texts on social platforms, has become an important way for them to realise their self-value and expand their social circle. Therefore, emoticons, short videos, "two dimensions" spiritual consumption and the "fan economy" are popular among Generation Z in the country.

Figure 9: Generation Z consumption on "two dimensions" goods and products in China (2021)

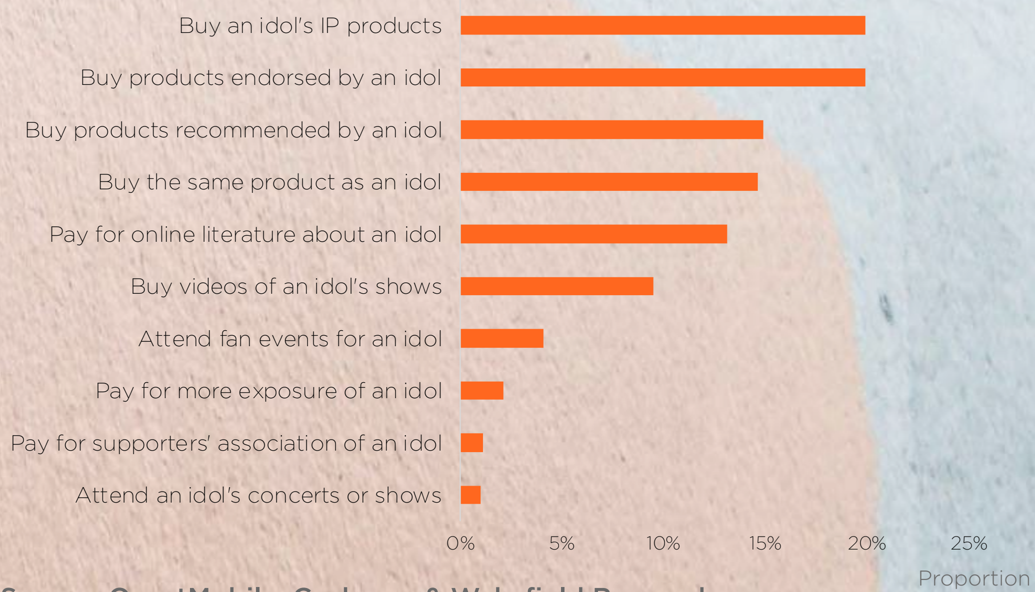


Source: Shenwan Hongyuan, Cushman & Wakefield Research

"Two dimensions" spiritual consumption refers to the virtual world formed by ACGN (animation, comic, game and novel). Generation Z are willing to buy ACGN IP products, including music, widgets, cosplay and accessories to support their favourite avatars. According to Shenwan Hongyuan, 56.2% of Generation Z in China are willing to buy IP products. Computer games and comics followed at 48.55% and 47.3%, respectively (Figure 9).

Moreover, Generation Z in China are particularly fond of following their idols and buying the same products that their idols use and wear. According to QuestMobile, nearly 20% of Generation Z consumers prefer to buy the products endorsed by celebrities and about 14% of Generation Z prefer to buy the same products used and worn by their idols (Figure 10).

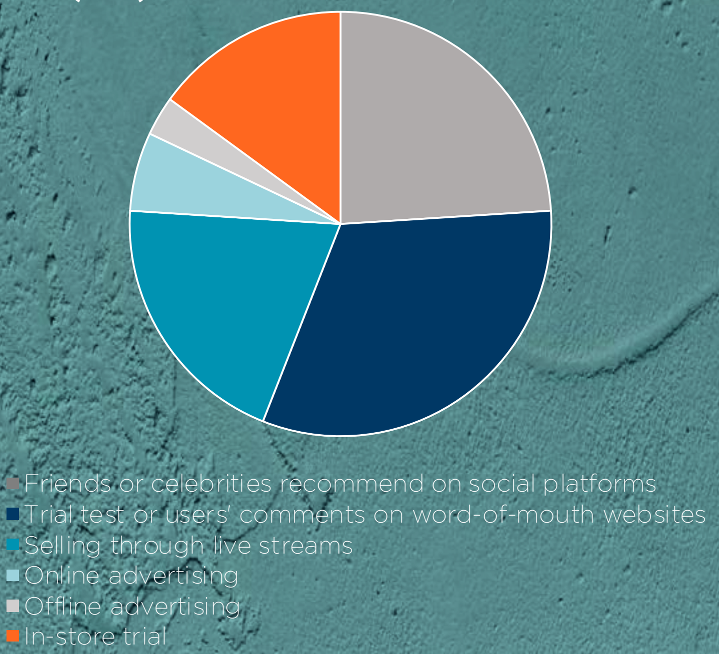
Figure 10: The Generation Z spend on idol-related products in China (2021)



Source: QuestMobile, Cushman & Wakefield Research

2 Passionate about recommending and buying recommended products

Figure 11: The channels that Generation Z in China get product information and make purchasing decisions from (2021)



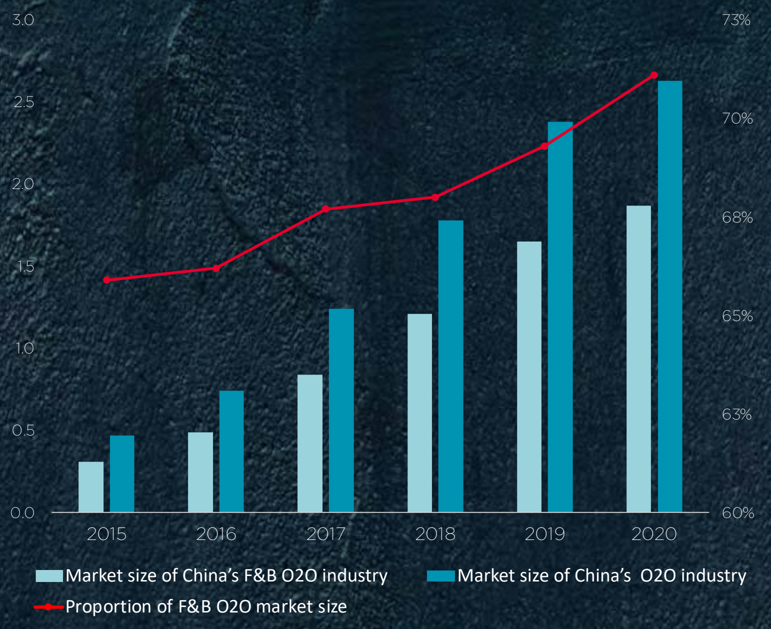
Source: Cushman & Wakefield Research

As Generation Z in China are mostly the only child in their family, their need to socialise is strong. They are more eager to seek identity on social platforms and are more social when consuming. Different from other generations, Generation Z is less aware of brand names. At the same time, according to Cushman & Wakefield Research, it is easier to win their trust if friends or celebrities recommend them on social platforms, users comment favourably on word-of-mouth websites, and/or their idols or stars use/wear the same products (Figure 11).

In addition to the continuous expansion of content on social platforms, such as TikTok, Dianping, RedBook and Bilibili, retailers and commercial real estate developers in China are also actively creating "social +" retail spaces. Consumers in China are no longer just buyers of goods and products, but also participants and co-developers of goods and products. The two-way relationship not only enables brands to create and upgrade new products in the region, according to consumers' needs, but also promotes consumers' loyalty and improves purchasing stickiness.

3 Spend money to save time

Figure 12: Market size of China's F&B O2O industry (2015-2020)



Source: Kantar, Cushman & Wakefield Research

Nowadays, the pace of people's life is getting faster and faster in China. The development of smart technology and infrastructure has freed people from tedious, repetitive household chores. Chinese consumers, especially Generation Z, are becoming more sophisticated and efficient in their daily lives.

The emergence of consumption demand to improve efficiency and quality represents the upgrading of consumption concepts and channels by Generation Z. Retailers in China provide consumers with timesaving and labour-saving goods, products and services, such as mobile payment, food delivery, prepared dishes and smart home devices, so that people, including the Generation Z group, can have more free time at their disposal. "Spend money to save time"-related goods, products and services over the past five years has seen phenomenal development growth in the country. For example, due to the impact of the COVID-19 epidemic, online F&B orders showed a strong rebound. According to Kantar, in 2020, China's F&B O2O market size was close to RMB1.87 trillion, accounting for 71.1% of the overall O2O market size (Figure 12).

4 The "his economy"

For a long time, it was assumed that men weren't interested in retail consumption in China. Within the county's retail market, men have typically been interested in consuming certain products, such as cars, 3C products and watches. However, with the development of short video and live broadcasting in China, more and more key opinion leaders (KOLs) have introduced personal image management to male consumers. "Fashion and beauty" are no longer words associated solely with female consumers. Many Generation Z males, in China in particular, are also concerned with their personal appearance. Subsequently, according to QuestMobile, in addition to the traditional male consumption market in China, the new consumption markets in the "his economy", such as clothing, accessories, beauty and toys are also expanding (Figure 13).

Figure 13: The consumption sectors in the "his economy" in China (2020)

Male-dominated consumption sectors
- Sports and outdoor activities;
- Automobiles;
- Watches, glasses, etc.;
- 3C products;
- Video games...

Consumption sectors for male only
- Men's wear;
- Men's community;
- Male e-commerce;
- Men's health...

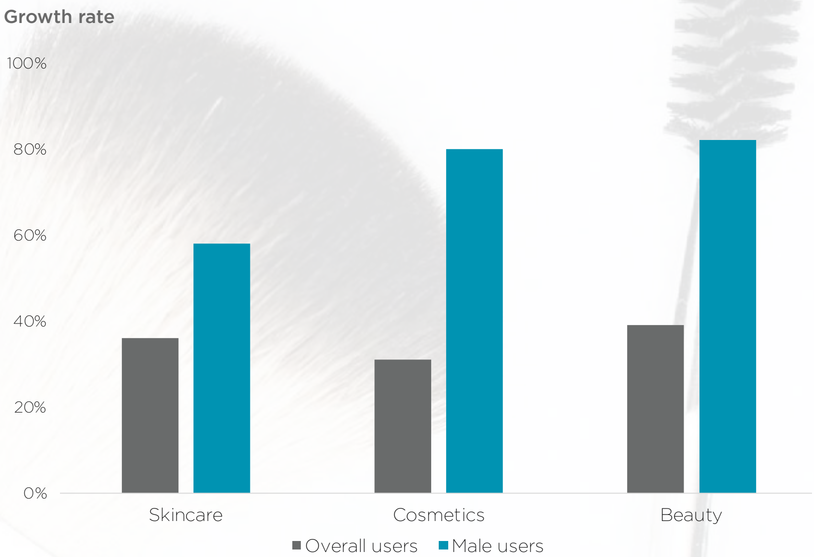
Female-dominated consumption sectors, but male's share of consumption is growing
- Cosmetics;
- Beauty;
- Maternity and baby products...

Consumption sectors for male and female
- Culture;
- Entertainment;
- Travel;
- Life service...

Source: QuestMobile, Cushman & Wakefield Research

Meanwhile, according to Ocean Engine, the number of male users in China watching beauty and skincare videos on TikTok increased faster than the number of overall users in Q3 2020. The growth rate of view counts related to cosmetics videos for men was 80%, much higher than the 31% growth rate of view counts related to overall cosmetics videos in the country (Figure 14).

Figure 14: The growth rate of view counts related to beauty videos on TikTok in China (Q3 2020)



Source: Ocean Engine, Cushman & Wakefield Research

As the consumption ability, the consumption concept and the consumption mode associated with Generation Z continues to increase their influence on the consumption market in China, Generation Z will become the backbone of the new consumption market in China.

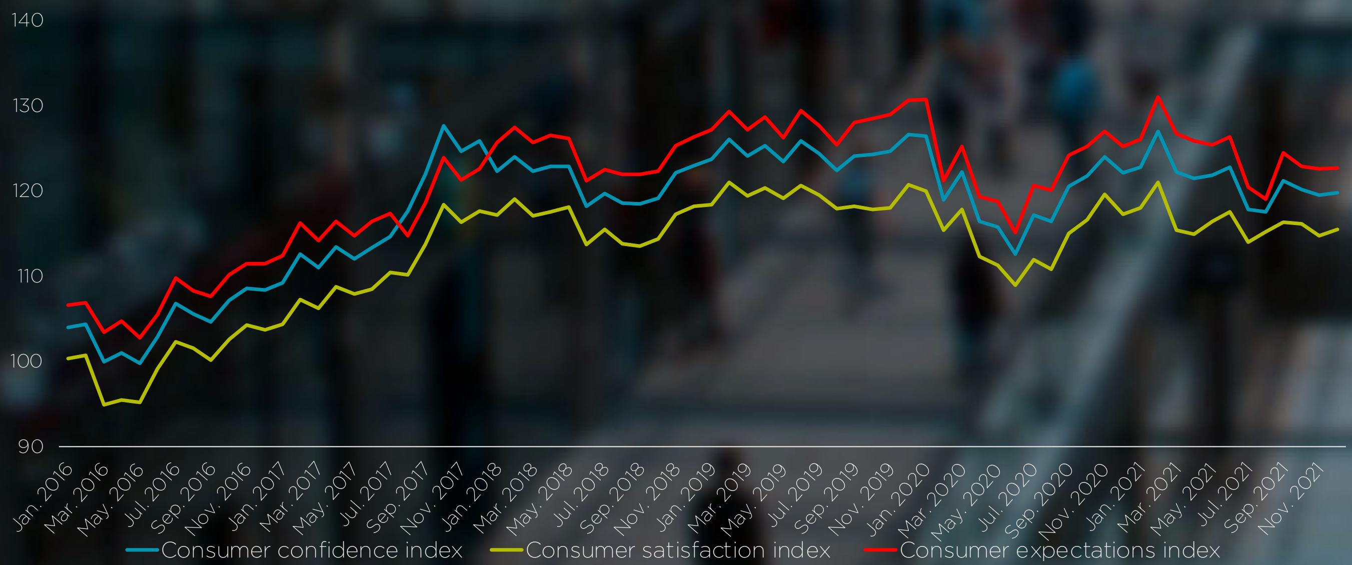
Post-COVID-19 — Shopping centre consumer behaviour has changed

In 2020, the global outbreak of COVID-19 not only had a huge impact on the global economy and retail market but will also change people's consumption behaviour for some time to come in China.

Shopping centres are still important for Chinese consumer consumption

Thanks to the Chinese government's epidemic control measures, China's retail market has recovered rapidly. After falling in the first two quarters of 2020, according to the National Bureau of Statistics in China, the consumer confidence index for China rebounded in Q3 2020 and returned to pre-pandemic levels in early 2021 – above the global average (Figure 15).

Figure 15: China Consumer confidence index, consumer satisfaction index and consumer expectations index (2016-2021)

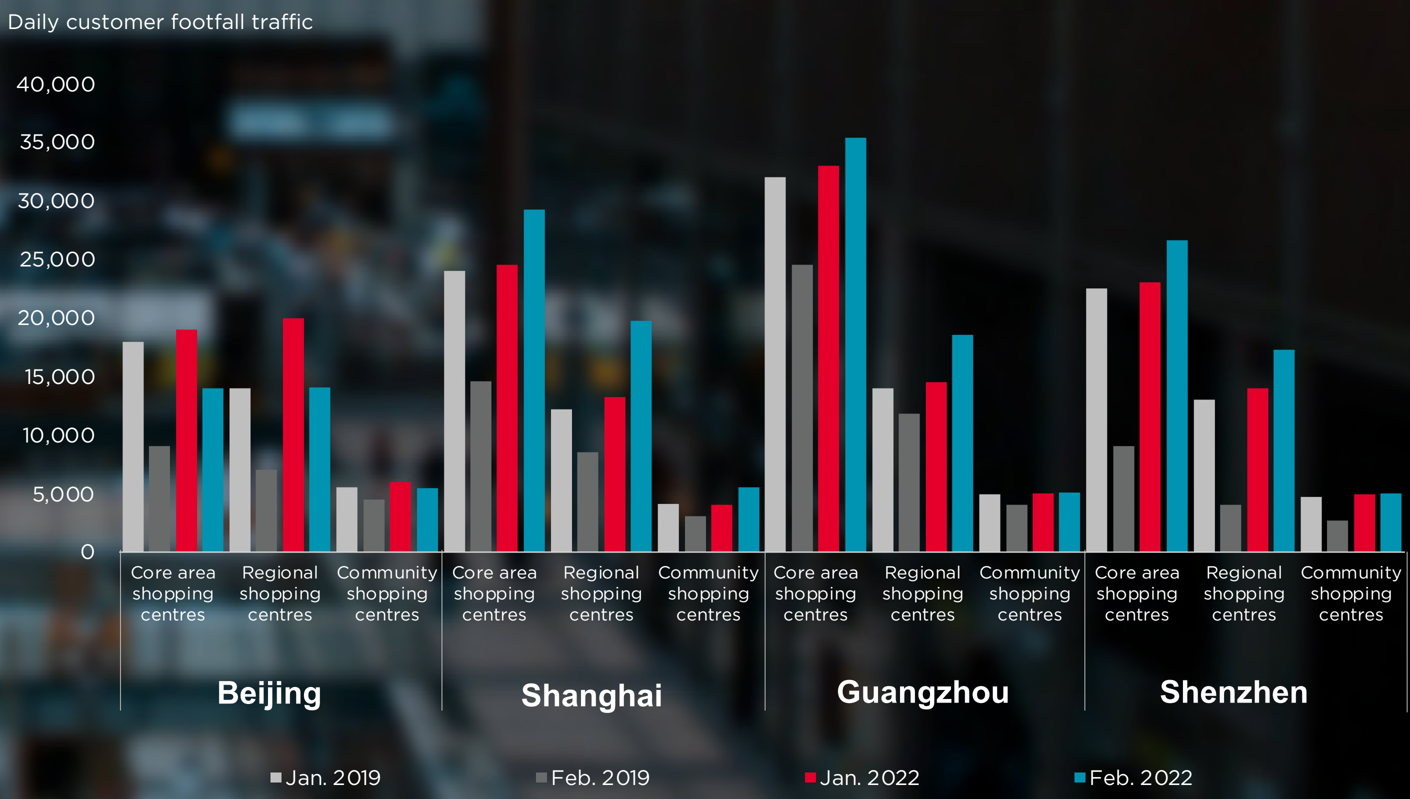


Source: National Bureau of Statistics of China, Cushman & Wakefield Research

Meanwhile, according to Nielsen, during the pandemic in early 2020, consumers' online spending in China mainly focused on just-needed food and clothing items. After this period and today, offline consumption is still the main channel for Chinese consumers to consume. However, consumers in the country today not only buy their just-needed products online but also continue to consume in offline retail outlets.

The experience of bricks and mortar stores is incomparable, and offline consumption is still the preferred way of shopping for consumers in China. As China's epidemic control helped normalise everyday life in the country, between early 2020 and early 2022, shopping centre consumer footfall traffic in regions and cities throughout the country fully recovered to pre-epidemic levels, with some shopping centres even seeing an increase in consumer footfall traffic, except in medium or high-risk regions. According to Cushman & Wakefield Research, in January and February 2022, the average daily consumer footfall traffic of shopping centres in first-tier cities in Beijing, Shanghai, Guangzhou and Shenzhen was higher than the same period in 2019 (Figure 16).

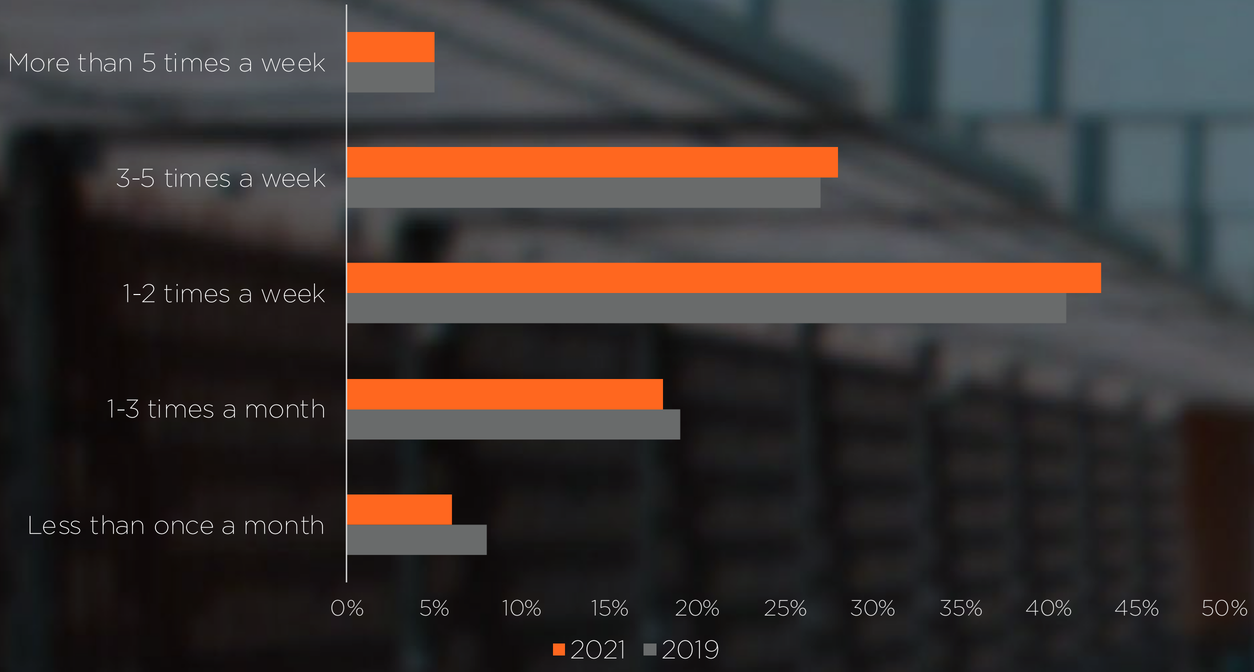
Figure 16: Selected shopping centres in China's first-tier cities: Average daily consumer footfall traffic (Jan-Feb 2019 and Jan-Feb 2022)



Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research

In 2021, consumers visited shopping centres more frequently and spent more than they did before the early 2020 COVID-19 pandemic. According to Cushman & Wakefield Research, about 73% of consumers visited shopping centres more than once a week (Figure 17).

Figure 17: Consumers in China – Shopping centre shopping frequency (2019 and 2021)

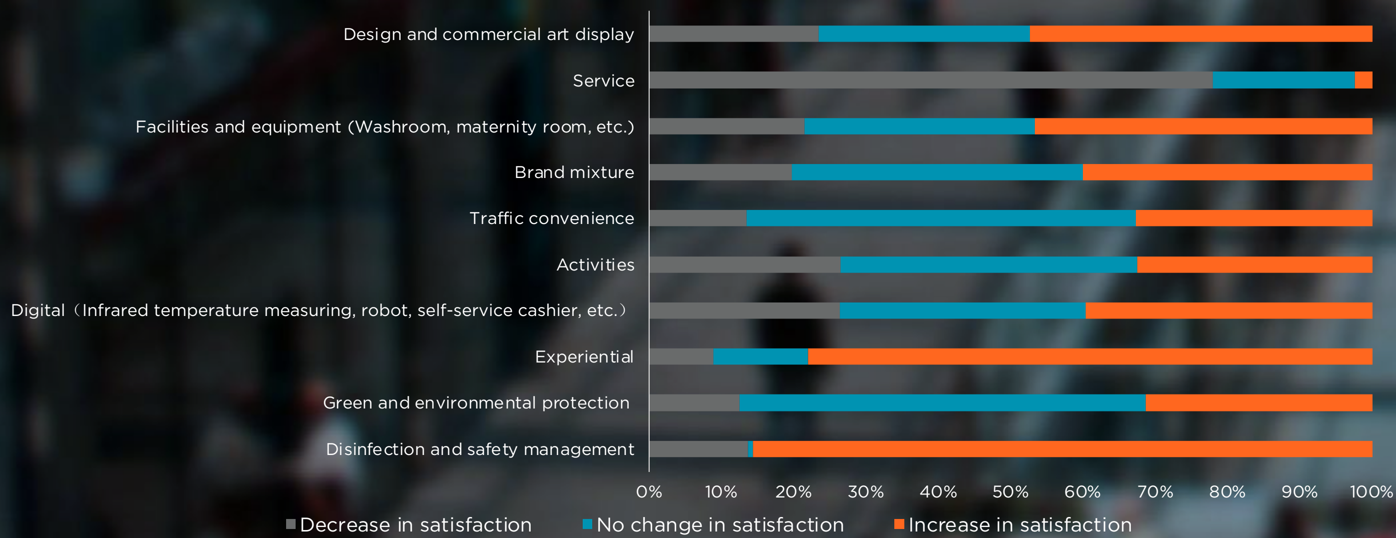


Source: Cushman & Wakefield Research

What's more, some consumers said they are more willing today to visit shopping centres on weekends and holidays due to good local epidemic control, as well as safety and disinfection measures adopted by shopping centres.

Additionally, in 2021, the frequency and willingness of consumers in China to go to shopping centres increased, on the one hand due to China's effective epidemic prevention and control measures, and on the other hand due to consumers' increased satisfaction with shopping centres. According to Cushman & Wakefield Research, compared with the period before the epidemic, consumers' satisfaction with safe disinfection and safety management, experiential, facilities and equipment, design and commercial art display, brand mixture, and related digital technology has improved. This is mainly due to the fact that some existing shopping centres in China have adjusted their tenant mixture or renovated their facilities to maintain their market competitiveness during and after the COVID-19 pandemic in China in 2020. However, due to the impact of the COVID-19 epidemic, exhibitions, pop-up stores and other activities in shopping centres have been reduced, some entrances and exits have been temporarily closed to control footfall traffic flow in the shopping centres, and the number of service personnel has also been reduced, resulting in a decrease in consumers' satisfaction associated with these related shopping centre features (Figure 18).

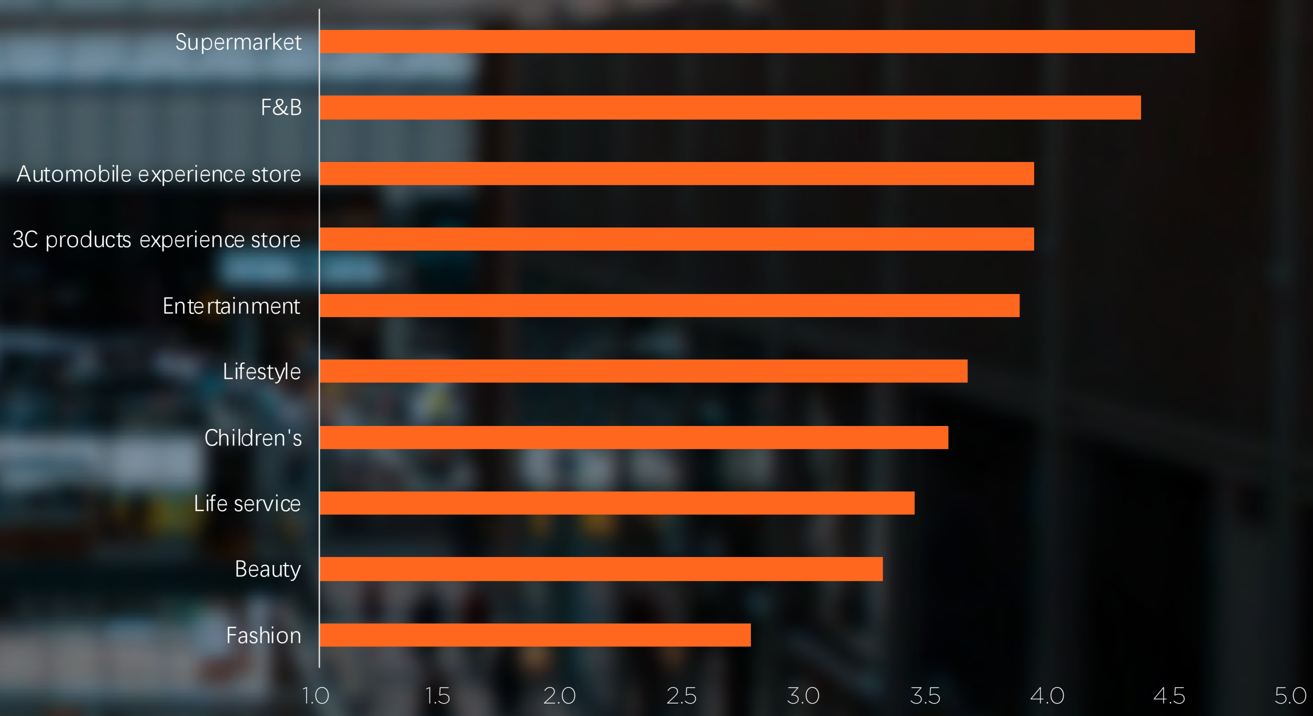
Figure 18: Consumer satisfaction with shopping centre features in China (2019 and 2021)



Source: Cushman & Wakefield Research

Meanwhile, consumers in China are not only satisfied with shopping in retail properties, but also expect shopping centres to become places for recreation, socialising and tourism. According to Cushman & Wakefield Research, consumers in the country generally show high satisfaction with the supermarket in shopping centres, but put forward more requirements and expectations on fashion, beauty, life service, children's and experience shops and stores (Figure 19).

Figure 19: Consumers' satisfaction with various types of shops and stores in shopping centres in China (2021)



Note: 1 is very dissatisfied; 2 is dissatisfied; 3 is partially satisfied; 4 is satisfied; 5 is very satisfied.

Source: Cushman & Wakefield Research

In China, the change of consumption concept is not only about the upgrading of consumption power but has also taken into account the upgrading of people's life quality. In the era of new consumption, retailers and landlords of shopping centres in China must constantly explore new models, new technologies, new products and new market segments to meet the new consumption needs of consumers, so as to seize the new consumption opportunities.

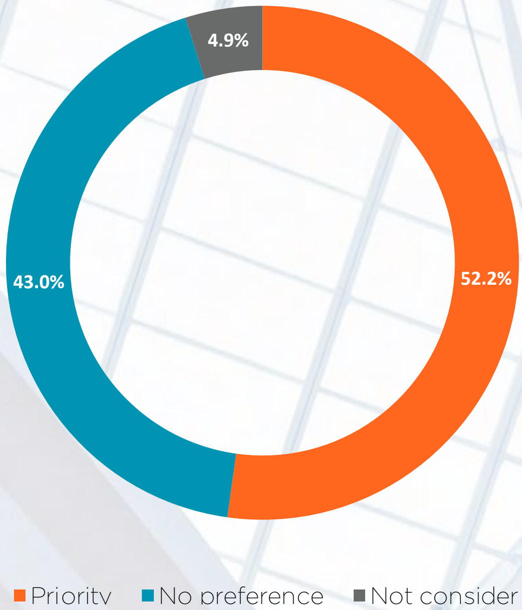
CHINA'S RETAIL — BREAKTHROUGH AND TRANSFORMATION

In recent years, with the continuous expansion of the consumer market, the advance of technology, the intensive introduction of favourable policies and strong capital investment, retailers and landlords of retail properties in China have actively seized the new consumer opportunities that have arisen. China's retail market continues to introduce new business models, new type of services and innovative retail formats to adapt to the ever-changing consumer groups and consumption patterns.

Online 'guochao' brands open brick and mortar stores

With the development of the economy and the improvement of Chinese cultural self-confidence, nearly one billion new middle class and Generation Z groups are more and more willing to spend on Chinese brands, so as to find their cultural identity and sense of belonging. According to Cushman & Wakefield Research's survey, 52.2% of Chinese consumers will prioritise domestic goods and products when purchasing (Figure 20).

Figure 20: Chinese consumers' attitude towards domestic products (2021)



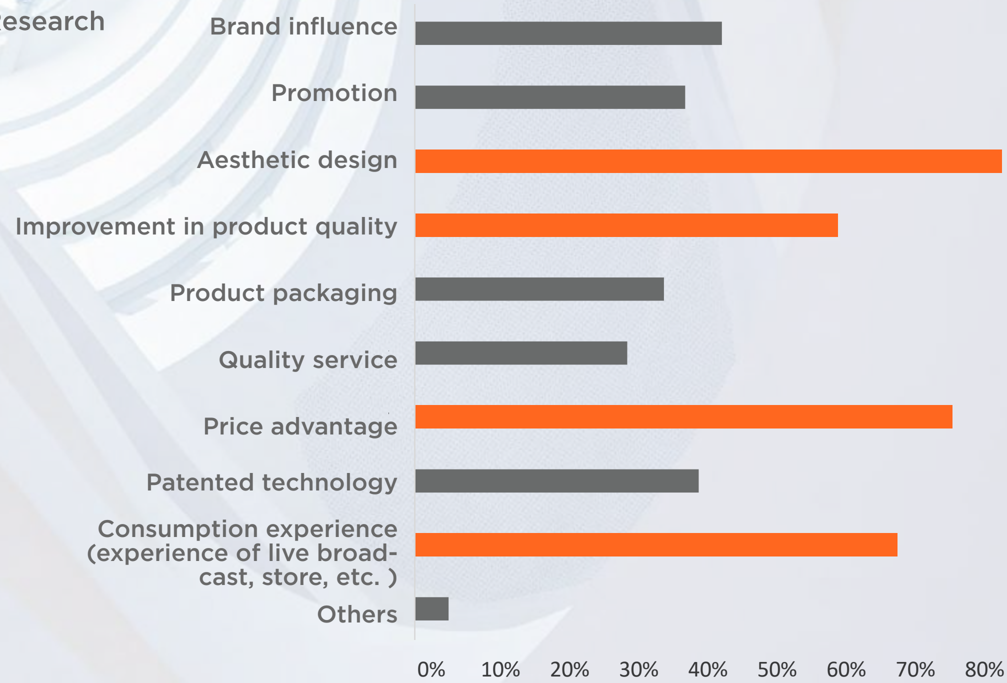
Source: Cushman & Wakefield Research

Meanwhile, China's manufacturing and retail companies have actively innovated, so as to obtain market competitiveness in product quality, aesthetic design, marketing model and patented technology. According to Cushman & Wakefield Research's survey, the top six factors for consumers to buy Chinese branded goods, products and/or services are aesthetic design, price advantage, consumption experience, improvement of product quality, brand influence and patented technology (Figure 21).

Therefore, compared with 20 years ago, consumers in China buy Chinese brand products for a variety of reasons, not just for the price advantage.

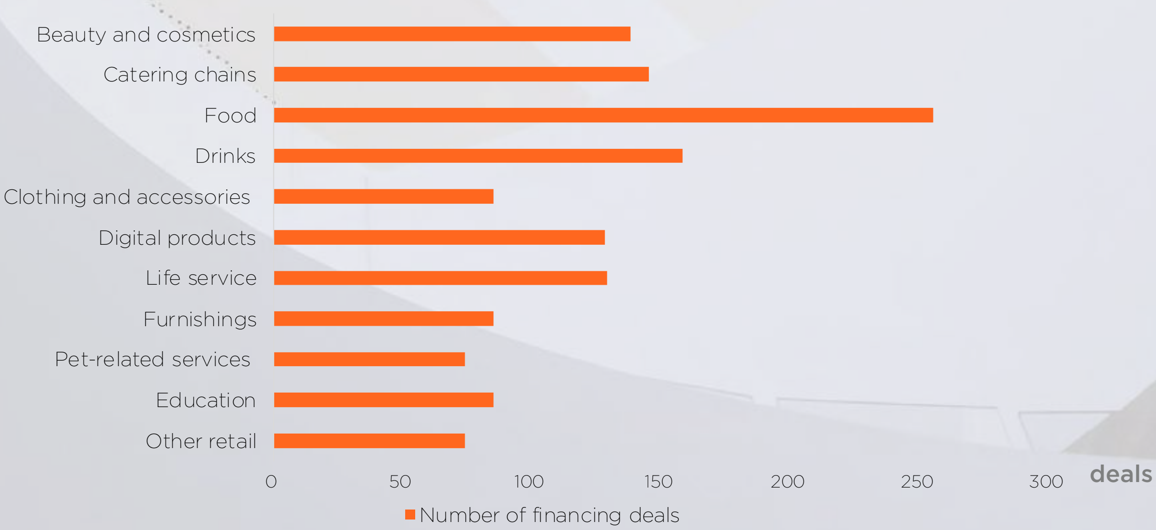
Moreover, 'guochao' brands continue to explore opportunities in subdivided and emerging markets, overtaking and rapidly seizing local market share. Chinese brands have been supported by capital, allowing these companies to compete with international brands in terms of scale. 1,356 financing deals have been associated with Chinese or 'guochao' brand companies in 2021. According to Rhino Data, food and beverage, catering chains, beauty and cosmetics, clothing and accessories, life services and digital products have become popular retail segments in the capital markets in China recently (Figure 22).

Figure 21: The major factors for consumers to buy Chinese brand products or services (2021)



Source: Cushman & Wakefield Research

Figure 22: The number of financing deals related to Chinese or 'guochao' brand companies in China (2021)

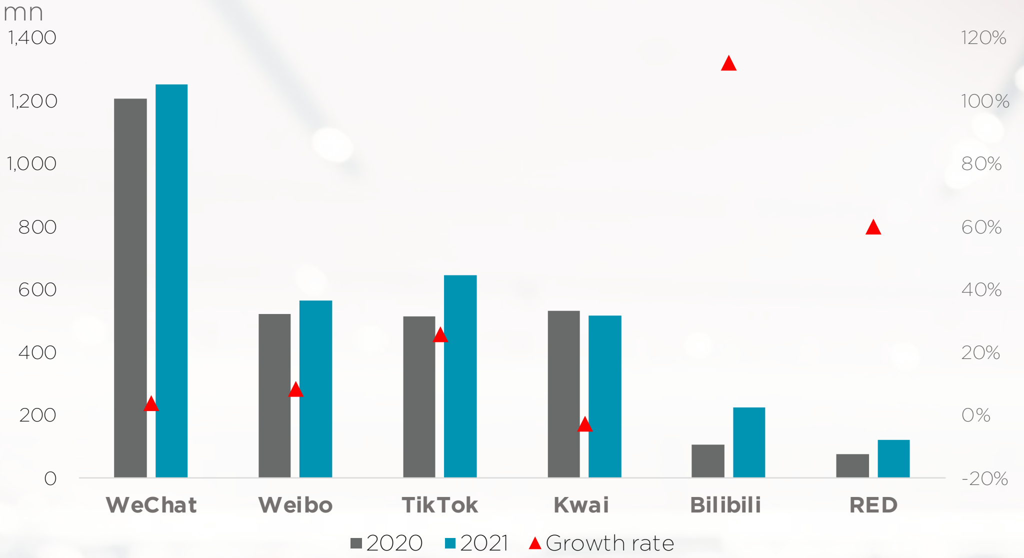


Source: Rhino Data, Cushman & Wakefield Research

'Guochao' brands take advantage of the Internet to develop rapidly

With the popularity of smart phones and the construction of 5G in China, new media platforms, such as online videos, live streaming and short videos are popular because of their social media attributes, three-dimensional visual experience, real-time interaction and distinctive subjects and topics. According to QuestMobile, in 2021, the user scale of TikTok, Bilibili and RED grew by 25.6%, 112.1% and 59.9%, respectively (Figure 23).

Figure 23: Monthly active user scale and growth rate of major social media platforms in China (2020 and 2021)



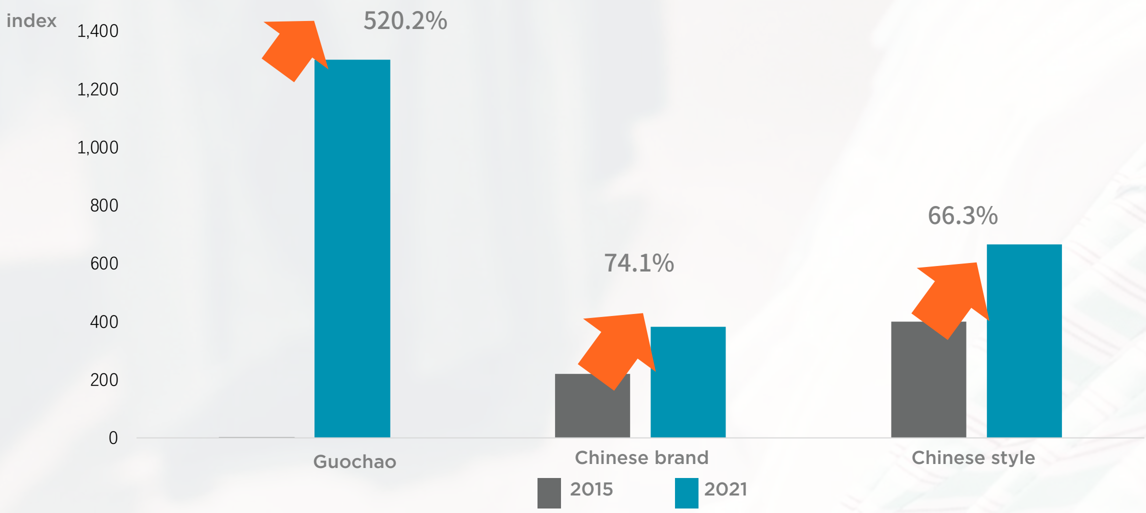
Source: QuestMobile, Cushman & Wakefield Research

Moreover, live streaming sales enhance the interaction between retailers and consumers, making the relationship between them more intimate. Web celebrities not only introduce product functions and features, but also try out the product on site and describe the experience of using the product during the live streaming session.

Compared with traditional media advertising, consumers can obtain a more comprehensive idea of what a product is all about, its quality and what it can offer. Retailers are more likely to gain the trust of consumers and achieve better effects regarding product promotion. Meanwhile, retailers can offer real-time sales promotions during the live streaming session. Consumers can communicate with web celebrities online in real time and provide tips and gifts for the web celebrities' performance. What's more, retailers can receive feedback from consumers in real time to improve their goods, products and services.

'Guochao' brands have seized on this trend, expanded their brand influence and improved their sales performance by virtue of new media platforms. According to the Baidu Index, compared with 2016, the key hot search words of – 'guochao', Chinese brands or Chinese style – (regarding Baidu's search engine and words used to search on the search engine), increased by 520.2%, 74.1% and 66.3% respectively in the recent six years (Figure 24).

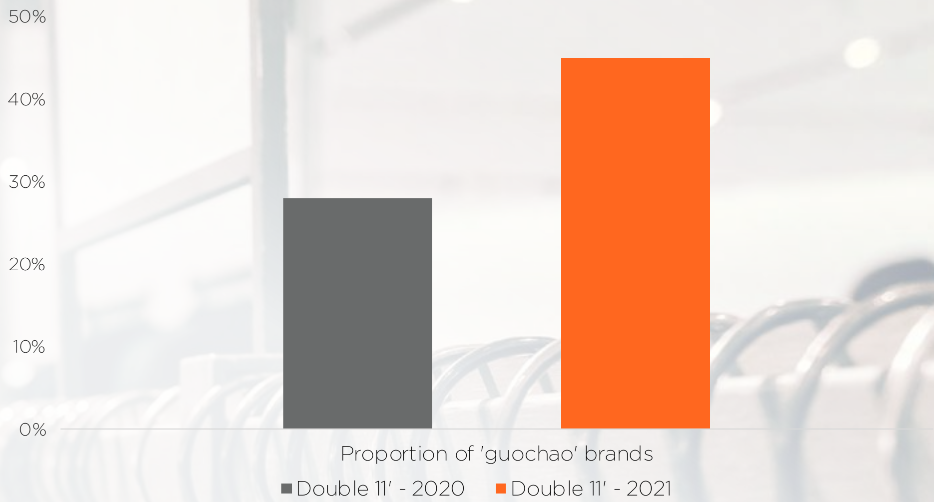
Figure 24: Key hot search words – 'Guochao', Chinese brand and Chinese style – Search engine index search results on Baidu (2015 and 2021)



Source: Baidu Index, Cushman & Wakefield Research

Furthermore, during the 'Double 11' shopping festival in 2021, among brands with sales of over RMB100 million on Taobao (according to Taobao), 'guochao' brands accounted for 45%, up 17% y-o-y. The top five brands in the mobile phone sector, jewellery sector and snacks sector were all 'guochao' brands (Figure 25).

Figure 25: The proportion of 'guochao' brands with more than 100 million sales during the 'Double 11' shopping festival in China (2020 and 2021)



Source: Taobao, Cushman & Wakefield Research

Guochao brands improve brand value by opening brick and mortar stores

After the era of mass consumption and Internet marketing, 'guochao' brands have reached a turning point in China. The impression that many consumers have of 'guochao' brands is often associated with the recommendation of celebrities and the WeChat Moments social media platform. Many consumers also buy on impulse, so consumer loyalty stickiness is relatively low. Meanwhile, the growth of live streaming sales has slowed and the cost of attracting consumers through Internet marketing has increased.

Therefore, opening brick and mortar stores has become a new way for Chinese fashion brands to improve brand value and attract new consumer groups in China. The diverse experiential spaces of existing and newly launched 'guochao' brand stores have created a visible and tangible sense of trust and emotional bond with consumers. According to Cushman & Wakefield estimates, since 2017, 'guochao' brand beauty and clothing stores have expanded rapidly in first- and second-tier cities in China. The annual estimated store number growth rates are 27% and 8%, respectively. Moreover, the market expansion trend for 'guochao' brand stores in China has been to expand in first-tier cities, and then gradually enter into second-tier cities, small-town and rural markets. Annual store number growth rates have been as high as 67% (Figure 26).

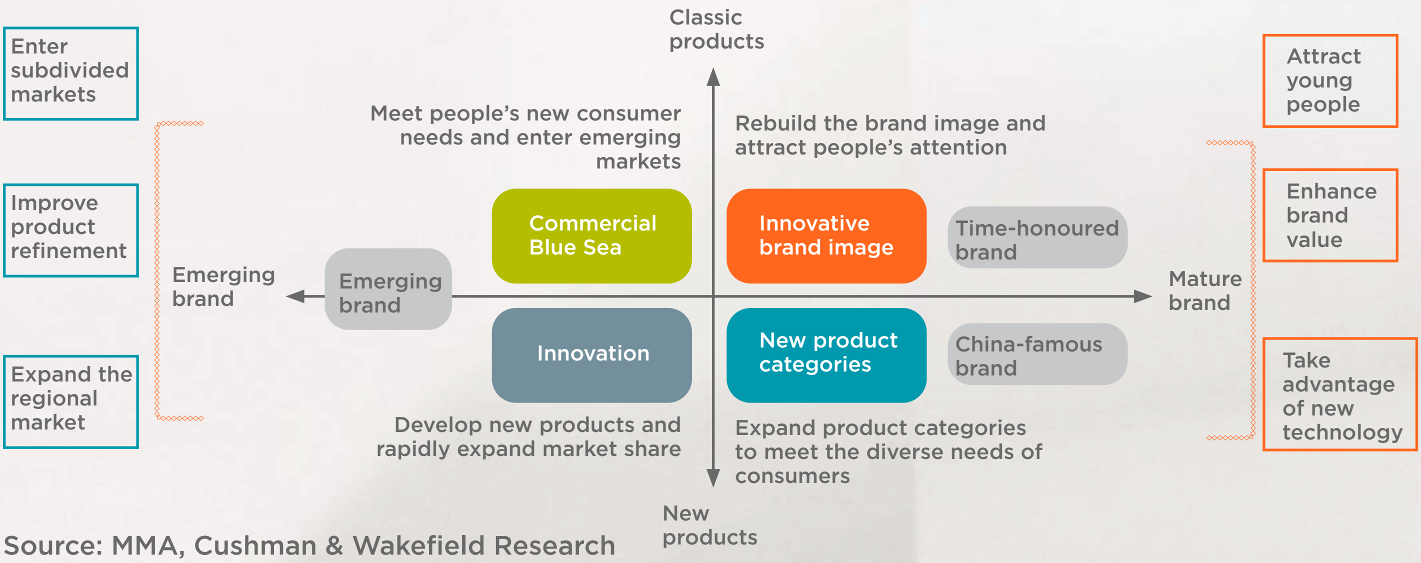
Figure 26: Number of 'guochao' brand stores in China's first- and second-tier cities (2017-2021)

Note: The number of stores including collection store.
Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research

> "We have carried out a thorough upgrade to refresh the image of our stores in the minds of consumers in many aspects, including product categories, decoration aesthetics, brand culture, product selection, displays, scenes and products. It creates a store environment around the sense of consumer experience, takes experience as the core, promotes the emergence of new retail formats, and builds a unique experience with unique content. It not only meets our consumers' functional needs for our products but also connects consumers' emotions." – A representative from a well-known 'guochao' brand in China.

Looking forward, consumers will be the focal point for the entire retail industry in China. 'Guochao' brands will integrate online and offline data, products, prices and services to provide consumers with a comprehensive shopping experience. Some time-honoured and China-famous 'guochao' brands will improve their brand value, attract young consumers and adopt new technologies to reshape their brand image. Meanwhile, emerging 'guochao' brands will expand their market share by looking for commercial blue oceans by developing new products to meet consumers' consumption demands (Figure 27).

Figure 27: 'Guochao' brand development path



Source: MMA, Cushman & Wakefield Research

Lifestyle brands are in the ascendancy

With the expansion of China's middle class, the middle class has formed the backbone of China's consumer market. The consumption upgrade of the new middle class has led to the development and innovation of brands and shopping centres. Most Chinese citizens are now relatively materially well off. Thus, China's middle class is no longer satisfied with material pursuits, but more concerned with the quality of spiritual life. In the consumer market today, products with high quality and trendy designs are only the basis to impress Chinese consumers, while satisfying consumers' needs on the spiritual level now lies at the core of competition between brands in China.

What is the lifestyle brand?

Lifestyle brands do not aim to provide the 'product', but rather paint a picture of a lifestyle and all the products associated with it. Through the interaction between the brand and consumers, consumers are not only satisfied with having products, but constantly look to realise their life dreams through the brand.

Lifestyle brands mainly have the following three core elements:

- **The real-life perspective:** A brand needs to express what it is and what lifestyle it represents. 'Real-life perspective' determines what kind of consumers the brand aims at and what kind of brand value it builds;
- **The concrete, practical experience:** In the mind of consumers, a lifestyle brand is not an ethereal image, but a 'concrete, practical experience', which allows consumers to form a stronger brand imagine, and;
- **The desirable good life:** Lifestyle brands represent a target consumer's image of a 'desirable good life'. Lifestyle brands should not be a copy of the current life of target consumers.

Create brand experience based on the characteristics of consumers

Consumers buy products not only because 'I need it', but also because of 'I want it'. I want to show my life attitude and way through this brand and product. Therefore, lifestyle brands not only serve to let consumers remember their brands and products, but they create brand experiences based on the characteristics of consumers, so that consumers can have a sense of resonance and take the initiative to choose their products and services.

> Generation Z consumers are our main target group, and they are characterised by many features, including social, local, mobile and personalisation. Among these features, personalised customisation, personalised service, ready-to-reach and omnichannel are becoming the transformation direction for the retail industry in China. Starting from the core of the brand spirit, we create a store image that consumers love, and we create a unique retail space. Meanwhile, our stores are not limited to single retail, but they create more multi-dimensional, regular and longer consumption scenarios through the addition of commercial eco-systems, such as coffee and tea brands." – A representative from a well-known lifestyle brand in China.

Therefore, many lifestyle brand physical stores in China now encapsulate experience spaces for art, exhibitions and so on as well as retail. These stores better interpret the brand connotation, they guide consumers to explore their emotions and identity and they arouse the consumer resonance with the brand and the brand's products. This not only expresses the brand, but also strengthens the identity of its consumers.

Rely on Big Data analysis to select products

The Internet has become an integral part of consumers' daily lives in China. Mobile payment is the norm now and online purchasing is frequent. Under this new retail modus operandi, the traditional distinction between online and offline retail is steadily blurring. Moving forward, only by complementing the advantages of online and offline can a comprehensive shopping experience be provided to consumers in China. This has not been lost on many traditional retailers and Internet enterprises, and many have joined forces to provide a seamless online/offline retail service demanded by consumers in the country.

Taking KK Group as an example, the company's retail operation is data centred. It has established a selection strategy mainly supported by Big Data analysis, so as to timely grasp the most popular products associated with local consumers, flexibly adjust the product mix of each store, and achieve the effect of different goods in different stores. In addition, a large amount of transaction data can be accumulated through the interaction with target consumers. Based on a deep understanding of its consumers, KK Group can provide a differentiated experience through its innovative approach to retailing (Figure 28).

Figure 28: KK Group's data centred retail operation model

Source: Prospectus of KK Group, Cushman & Wakefield Research

In the post-COVID-19 era, people are paying more attention to their own lives and experiences in China. The lifestyle brand is not only a breakthrough point in the new consumption field but is also a new business track for retailers in the country toa take.

The Metaverse leads a new wave in retail and social experience

Nowadays, Generation Z has gradually become the mainstream consumer group in the market and leads the new trend in consumption in China. In terms of consumption, Generation Z cares more about trendy and avant-garde experiences and is willing to pay for them. Today, the Metaverse concept coincides with the current consumer demand of Generation Z. The Metaverse craze, with elements such as immersion and socialisation, is rapidly sweeping the world, including China.

What is the Metaverse?

The term 'Metaverse' first appeared in the science fiction novel "Avalanche" published in 1992. In this work, the author depicts an online world parallel to the real world, where people use digital avatars to control everything and compete to improve their status in the virtual world. The Oasis in the film "Ready Player One" is also a Metaverse.

Returning to the essence, the Metaverse uses cutting-edge technologies, such as artificial reality (AR), virtual reality (VR), 5G, cloud computing, and blockchain to build a channel between the real world and virtual application scenarios under the support of shared infrastructure, standards and protocols – giving users a high sense of immersion and participation (Table 1).

Table 1: Metaverse related technologies and applications

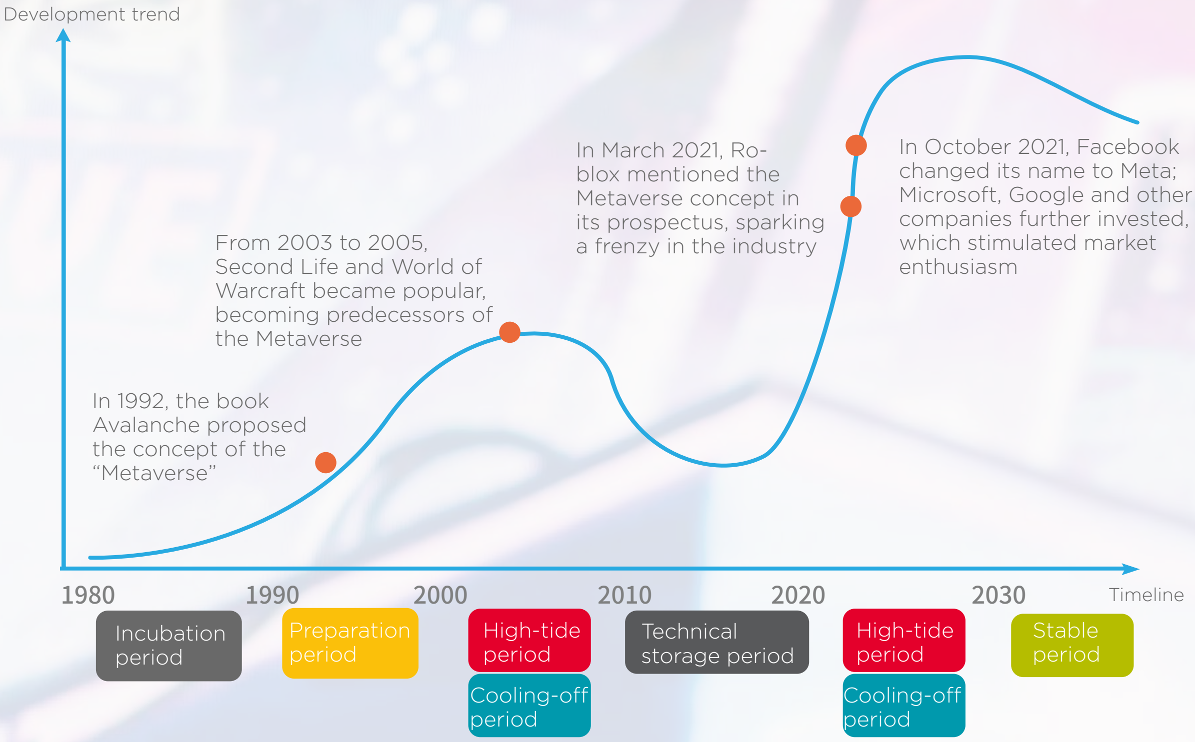
Metaverse Technology Base	Corresponding Technology	Application Scenario
Virtual-real Interface	Extended Reality (XR) (collectively referred to as VR, AR, mixed reality (MR))	VR provides an immersive experience and realises the input and output of information in the Metaverse by fully taking over human sight, hearing, touch and motion capture. AR superimposes a layer of virtual information based on retaining the real world. MR projects a light field to the retina, achieving partial retention and free switching between the virtual and the real.
	Robots	The physical simulation of the body becomes another channel to connect the Metaverse.
	Brain-Computer Interface	It is becoming the focus of competition among technology giants, and it is currently mainly used in the medical field.
Web Environment	5G	5G's high speed, low latency, low energy consumption, and large-scale device connections can support many application innovations required by the Metaverse.
Data Processing	Cloud Computing	A cloud computing system with a dynamic computation allocation framework will be an infrastructure associated with the Metaverse.
Content Production	Artificial Intelligence (AI)	AI can greatly improve computing performance. Content production: AI can intelligently generate a massive amount of content that is not repeated, and it can realise the spontaneous and organic growth of the Metaverse. Content presentation: AI-driven virtual digital humans present the content of the Metaverse to users in an organised manner. Content review: Censorship of massive amounts of content in the Metaverse that cannot be done manually to ensure the safety and legitimacy of the Metaverse.
	Digital Twin	Originally used in industrial manufacturing, the Metaverse needs a digital twin to build an extremely detailed immersive environment, thus creating an immersive presence experience.
Authentication Mechanism	Blockchain	It is a virtual currency based on a decentralised network. It makes value attribution, circulation, realisation and authentication of virtual identity possible in the Metaverse, and has the advantages of stability, efficiency, transparent rules and certainty. Non-Fungible Tokens (NFTs). Its unique, non-reproducible, and non-removable characteristics naturally have collectible properties, so it can be used to record and trade some digital assets, such as artworks.

Source: New Media Research Center in Tsinghua University, Huaan Securities Research Institute, Cushman & Wakefield Research

Embracing the Metaverse – The retail industry ushers in changes

In some respects, 2021 could be called the first year along the path to the realisation of the Metaverse. Roblox, a Metaverse concept company, went public in the United States on March 10, 2021, with a market value of $38.3 billion (Figure 29).

Figure 29: The Metaverse's global development trend (1980-2030)



Source: New Media Research Center in Tsinghua University, Huaan Securities Research Institute, Cushman & Wakefield Research

The Metaverse has begun to enter people's field of vision, and has quickly spread to various social and economic domains, such as social media, retail, etc. It has also recently become an outlet for capital to chase, and major companies have entered the arena one after another.

With the improvement in technology, the Metaverse is gradually changing our life and consumption patterns, affecting the innovation and development of the retail industry. In the world of the Metaverse, the 3D visualisation of the retail products is closer to reality, and functions, such as product 'try-on', 'trial-on', and 'on-site placement' can also be realised. At the same time, the birth of the virtual digital human has aroused the curiosity of consumers, empowered brand marketing, and made the brand image more vivid and three-dimensional.

Many retailers who do not want to miss any opportunities in the virtual world are starting to deploy and build their Metaverse systems. Some of these retailers/systems include:

- **Walmart**——announced its entry into the Metaverse, with plans to produce and sell via the virtual world, including electronics, home furnishings, toys, sporting goods and personal care products;
- **Nike**——announced that it has cooperated with Roblox to create an online world called Nikeland, and announced the official acquisition of RTFKT Studios, a virtual fashion luxury design company, to accelerate the pace of digital transformation;
- **Metahuman AYAYI** ——joined Ali as a digital employee and became the digital manager of Tmall Super Brand Day. In the future, AYAYI will also unlock multiple identities, such as NFT artists and fashion brand managers, and;
- **Florasis** ——released the first hyper-realistic image of domestic makeup brands, showing Chinese makeup and oriental beauty brands to the world.

Some brands that attach importance to the whole lifestyle of young consumers may go on to promote a full digitalisation system. Retailers that are pushing the technology boundaries are now beginning to manufacture and sell all kinds of goods and products via the virtual world, and the Metaverse is the next step that is fast taking shape.

In addition, the offline commercial retail space has also firmly grasped the new opportunities for consumption transformation and upgrading brought by the Metaverse.

The Metaverse repositions the relationship between people and commercial space, so that retail is no longer limited to the physical space but combines the physical space and the virtual world to bring infinite scalability to commercial real estate. Commercial real estate retail space is able to build a Metaverse channel through AR, VR, 5G, cloud computing, blockchain and other technologies to:

- Create a space for virtual and real integration;
- Arouse the curiosity for consumer groups, and;
- Strengthen scene-based consumption, precision marketing, personalised services, etc., to increase the stickiness of existing consumer groups and expand the scope of consumer groups.

In recent years, many shopping centres in China have been scrambling to explore 'Metaverse + retail space' and have entered the blue ocean domain of the Metaverse:

1

Huawei launched its Cyberverse platform in 2019 – dedicated to creating a new digital world that seamlessly integrates with reality. In 2021, Cyberverse is becoming 'meta-universal', helping shopping centres, such as Beijing Fun, Xidan Joy City, Shenzhen Mixc to provide surreal large-space AR landscapes, convenient immersive AR navigation, virtual IP interactive games and other services;

2

In April 2021 – Chengdu IFS International Financial Square officially launched ARgo AR navigation, with SenseTime AI+AR technology as the core, to firstly, realise the country's first full-scene urban complex AR navigation and, to secondly, connect navigation with brand marketing activities, such as AR gift coupons, new product recommendations and theme event promotion;

3

In August 2021 – "the first futuristic technologies experience-based shopping centre in China", Shenzhen CATIC-CITY Dreams-on, was upgraded and unveiled. Labelled "Futuristic Technologies + Art", CATIC-CITY Dreams-on, together with the top production team district in South Korea and Shanghai Mark created Shenzhen's first naked-eye 3D vertical large-screen and integrated other futuristic technologies, experience art installations in its renewal of 200,000 sq m of commercial space. In addition, the centre has built a "futuristic technologies + first store" matrix with brands, such as McDonald's, Ye Cui Shan, Nayuki PRO, Peachful, LOLY POPING, and BIEM.L.FDLKK, which is very popular with the centre's young consumers today;

4

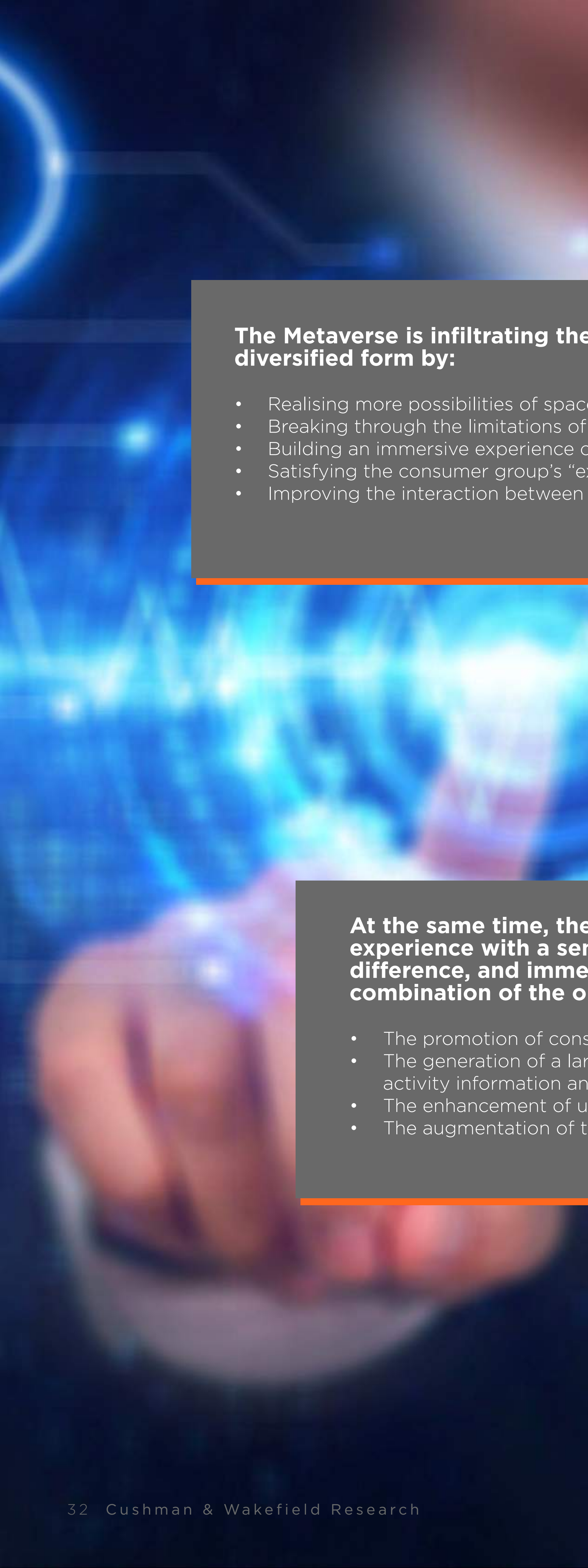
In September 2021 – Shenzhen Longgang Wanda Plaza, the Wanda Plaza chain's first fourth-generation project, officially opened, introducing its Metaverse World. Here, digital twins are constructed through scan-to-BIM technology to form a "parallel world" that allows consumers to travel and interact in the virtual world and in reality;

5

In September 2021 – the country's first 5G smart business 2.0 complex jointly built by China Telecom and China Resources Mixc Lifestyle will land in Hefei Mixc. Relying on its "Ecoverse" platform, Hefei Mixc has realised AR real-time navigation, VR immersive game interaction, and a customised version of the Metaverse called "Cloud Mixc" which allows for VR shopping and other full-scene applications, as well as further upgraded intelligent parking services, and;

6

In September 2021 – the first AR world reality application in South China, an AR show called "Ice and Snow Wonderland", was launched on the first anniversary of the opening of Guangzhou Yue City. Here, SenseMARS has created a Metaverse consumption experience for Yue City, which includes a huge ice dragon hovering in the sky, dreamy and realistic ice and snow castles and other scenes, AR red envelope rain, AR photo collection to check-in, etc. Since the introduction of this technology, market sales have increased by 196% year-on-year, and the growth in passenger flow exceeded that of the centre's initial opening period.



The Metaverse is infiltrating the offline commercial space in a diversified form by:

- Realising more possibilities of space extension;
- Breaking through the limitations of scenarios;
- Building an immersive experience combining the virtual and the real;
- Satisfying the consumer group's "experience" shopping appeal, and;
- Improving the interaction between space and consumption.

At the same time, the Metaverse-inspired consumer experience with a sense of story, substitution, interaction, difference, and immersion, coupled with the effective combination of the online and the offline, allows for:

- The promotion of consumer activity;
- The generation of a large amount of consumer consumption activity information and data;
- The enhancement of user stickiness, and;
- The augmentation of the soft value of commercial retail real estate.

Policies help the Metaverse enter the stage of compliant and orderly development

The rise of the Metaverse has opened up innovative paths for commercial real estate, bringing consumers a more comfortable and attractive consumption experience. It allows developers, investors and the public to think in new directions about future business models. Meanwhile, to steer the business growth of the Metaverse along the right development track, relevant ministries and local governments in China have successively issued Metaverse growth support policies (Table 2).

Table 2: Recent policies related to the development of the Metaverse in China

December 2021	**Shanghai**	The 14th Five-Year Plan for the Development of Shanghai's Electronic Information Industry	Strengthen the forward-looking research and development of the underlying core technology and basic capabilities of the Metaverse, promote the development of new terminals (that deepen perception and interaction) and the construction of systematic virtual content. Additionally, explore industry applications, such as a new generation of information technology integration applications that focus on AI + Big Data, cloud computing + edge computing, 5G + XR, blockchain + quantum technology, cloud-edge-device collaboration, digital twin + data middle platform, etc. Finally, promote technical collaborative research, standard formulation and platform construction, innovating applications, etc.
January 2022	**China**	The 14th Five-Year Plan for the Development of the Digital Economy	Innovate and develop "cloud life" services, deepen the integration of AI, VR, 8K high-definition video and other technologies, expand applications related to social networking, shopping, entertainment, exhibitions and other fields, and promote the upgrading of quality-of-life consumption.
January 2022	**China**	Fintech Development Plan (2022-2025)	Build diversified service channels. On the offline retail front, relying on the high bandwidth and low latency of 5G, integrate visual technologies, such as AR and MR with the banking scene, and promote the upgrading of physical outlets to multimodal, immersive and interactive smart outlets.
January 2022	**Zhejiang**	Guiding Opinions on the Construction of Future Industry Pilot Zones in Zhejiang Province	With AI, blockchain, and third-generation semiconductors, the Metaverse will be one of the key future economic domain pilot areas for Zhejiang by 2023. In the key construction tasks for this pilot area, Zhejiang will speed up the establishment of an open innovation platform in the fields of brain-computer collaboration, VR, blockchain, etc., to promote industrial technology empowerment and integrated innovation.
January 2022	**Beijing**	Eight Measures for Accelerating the Innovation-led Development of Beijing's Sub-centre Metaverse	Key enterprises which are newly registered in the Metaverse Application Innovation Centre and renting their own office space can apply for one of three levels of business subsidies – a 50% level subsidy, a 70% level subsidy, and a 100% level subsidy. In content design, highlight the characteristics of the integrated development of the Metaverse and cultural tourism. In terms of industrial space, plan the Metaverse industrial space layout to be in line with "1 innovation centre + N characteristic theme parks". In terms of application scenarios, aim development so as to provide digital empowerment and cultural and technological integration, thus "creating a new cultural and tourism scene of the real economy and digital economy integration". Provide enterprises with technology display and creation space.

January 2022	**Hefei**	2022 Hefei Municipal Government Work Report	Deploy future industries, aiming at frontier fields, such as quantum information, nuclear energy technology, Metaverse, superconducting technology, precision medicine, etc., to create a group of leading enterprises, cutting-edge technologies, high-end products. Use related future industries to grasp the city's future.
January 2022	**Wuhan**	2022 Wuhan Municipal Government Work Report	Promote the integration of the Metaverse, Big Data, cloud computing, blockchain, geospatial information and quantum technology with the real economy. Build a new generation national AI innovative development pilot zone and build five digital economy industrial parks, including the Xiaomi Science Park.
January 2022	**Chengdu**	2022 Chengdu Municipal Government Work Report	Vigorously develop the digital economy, actively seize future development tracks, such as quantum communication and the Metaverse, and build a "lighthouse factory" for digital manufacturing.

Source: Data from the government's official website, Cushman & Wakefield Research

Ahead, according to a Bloomberg Industry Research report, the Metaverse will be an $800 billion market by 2024. Moreover, Gartner, a third-party research organisation, stated that by 2026, 25% of people in the world will work, shop, study, socialise or play in the Metaverse for at least an hour every day, and 30% of enterprises will have products and services for the Metaverse.

In this digital economy era, the development of this industry in China requires the joint promotion of the market and the government. To seize the development opportunities of the Metaverse and make forward-looking plans, the retail industry should pay close attention to policy guidance and formulate timely strategies.

The 'socialising +' scenario empowers brands and shopping centres

The social habits of the Internet's native Generation Z and new middle-class families have shifted. They are no longer satisfied with the virtual way of making friends on the Internet but want to have a high-quality social circle and communicate with like-minded friends and family members face-to-face. Based on the strong social needs of Generation Z and the new middle class, retailers and landlords of shopping centres have actively created 'socialising +' retail spaces to attract young consumers. There are four main types of 'socialising +' retail spaces now active in China:

1 ‘Competitive socialising’

‘Competitive socialising’ is a leisure concept which brings people together to play a game, for example, live action role playing, escape rooms, indoor sports, etc. Different from traditional KTV and board games, ‘competitive socialising’ activity adopts tech and auto control, handheld PDAs, VR/AR and other software, sensors and devices to enhance players’ sense of immersion and participation and weaken the awkward feeling of face-to-face interpersonal communication. At the same time, the activity allows players to be faced with a dilemma and they need to help each other in order to achieve the same game goals, which binds players together.

After nearly 10 years of development, the market size of ‘competitive socialising’ in China has reached more than RMB10 billion. According to Meituan’s forecast, the market size of Chinese offline live action role playing will reach RMB15.42 billion in 2021, with 9.41 million consumers. In 2021, the number of registered enterprises related to ‘competitive socialising’ reached 5,361, up 167% y-o-y (Figure 30).

Figure 30: The number of registered enterprises related to ‘competitive socialising’ (2016-2021)

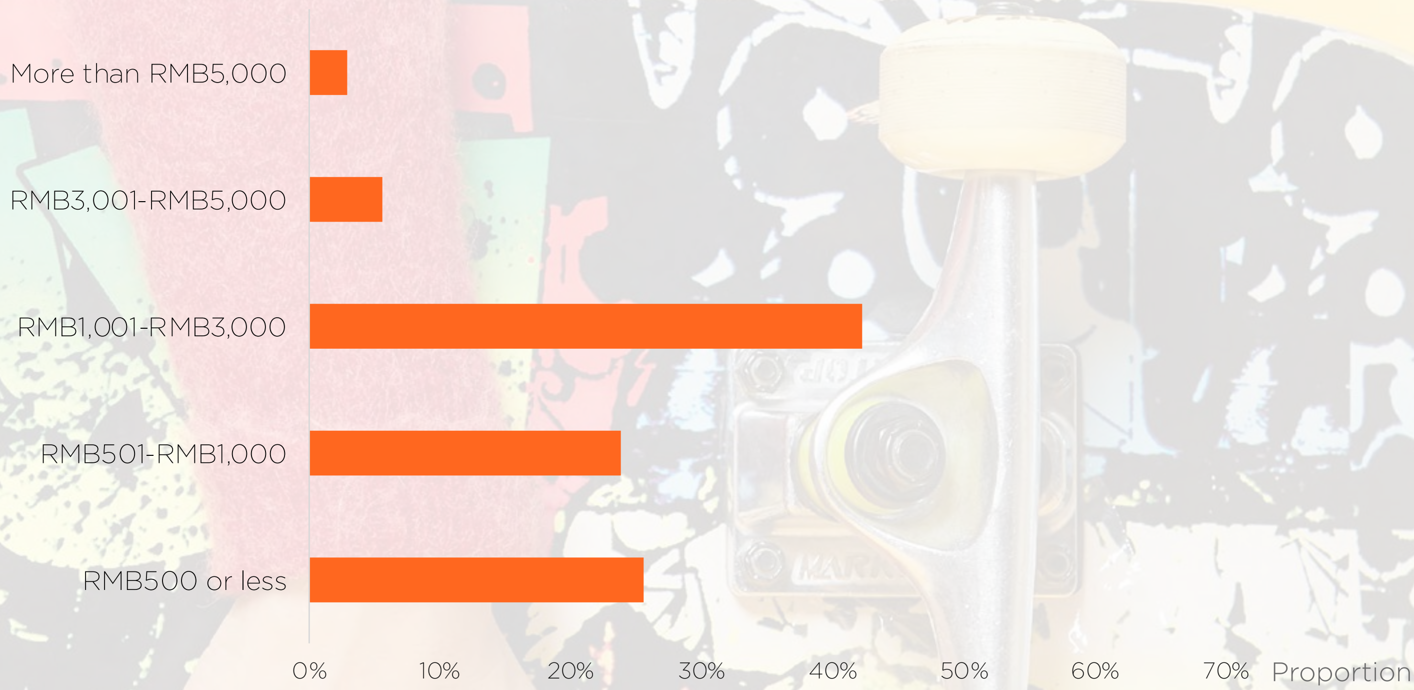
Source: Qichacha, Cushman & Wakefield Research

2 'Trendy' toys

'Trendy' toys have grown from a niche product to a popular trend among young players. Their essence is the integration of IP, offline experience and the social circle. Different from ordinary toys, 'trendy' toys have social attributes in their design, production, sale, secondary sale and collection. During the design and production process, designers post every step of the design on social media so that players can witness the process of a toy from design draft to real toy. Players feel like they are involved in the design and production of the toy. During the sales, secondary sales and collection process, the online social platform and the activities held by 'trendy' toy stores allow like-minded young people to gather together to share and communicate their collections and life.

China's 'trendy' toy market has exploded in recent years. According to iiMedia Research, the size of China's 'trendy' toy market increased from RMB6.3 billion in 2015 to RMB20.7 billion in 2019, with a compound annual growth rate of 34.6%, higher than the global growth rate. According to the research by Cushman & Wakefield Research, 51% of Generation Z in China spend more than RMB1,000 per year on 'trendy' toys (Figure 31).

Figure 31: The annual spending of Generation Z in China on 'trendy' toys (2021)



Source: Cushman & Wakefield Research

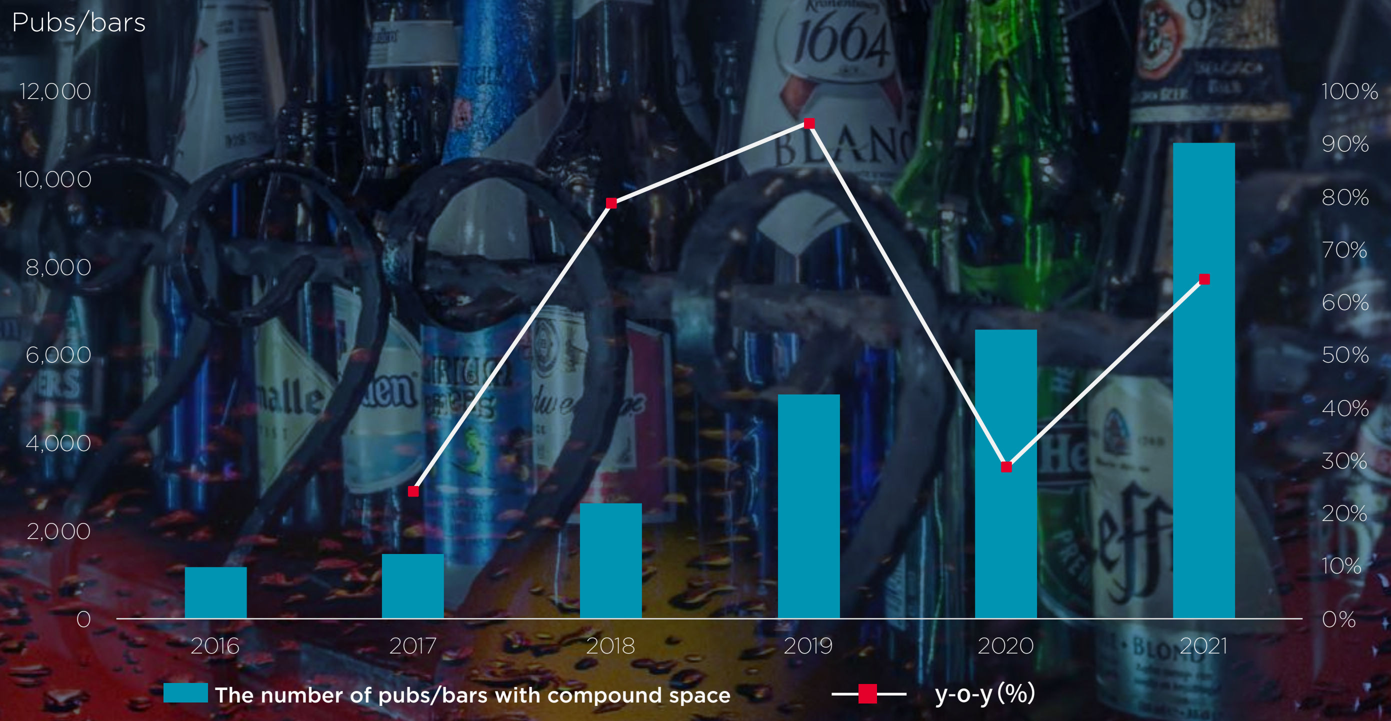
3 Pubs/bars with compound space

In order to cater to Generation Z's needs of socialising and evening consumption, many chain restaurant brands have entered the pub and bar market. The combination of 'restaurant + pub/bar + show' not only meets the needs of consumers for lunch and dinner, but also provides a place to socialise and for afternoon and evening entertainment.

In addition to chain restaurant brands, some well-known brands related to talk shows, crosstalk, musicals and theatres have also entered this market. Performing arts companies are actively developing performance venues in retail spaces, such as restaurants, bars, cafes, teahouses and bookstores, to promote comprehensive consumption, such as dining and shopping through performing arts activities.

According to estimated statistics from Cushman & Wakefield Research, the number of pubs/bars with compound space in China's first- and second-tier cities reached 10,836 in 2021, up 64.5% y-o-y (Figure 32).

Figure 32: The number of pubs/bars with compound space in China's first- and second-tier cities (2016-2021)



Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research

4 ‘Trendy’ indoor sports centres

The 2008 and 2022 Olympic Games boosted the popularity of summer and winter sports in China. Fitness and sports have become the way of life for Generation Z and the new middle class in China. Affected by this, shopping centres have paid more attention to the sports sector in recent years. The sports sector has become a new bright spot for shopping centres to attract consumers. Its outlets are not limited to gyms and fitness studios, but integrate F&B, arts, entertainment, exhibition, education, tourism and other functions, becoming a new venue for family and friends to entertain.

> “The traditional type of sports services cannot fully accommodate the more refined needs of the public in China. Serious physical fitness sports cannot be chosen as family and team activities, but recreational sports are naturally preferred. The ‘trendy’ indoor sports centre is divided into sports, retail and catering areas. As the core of the sports arena, it contains sports events, competitions and performances, thereby deriving three interesting experience scenes – playground, arena and show – to meet the needs of individual, family or team activities.” – A representative from a well-known ‘trendy indoor sports centre brand in China.

Moreover, in the post-early-2020-COVID19 epidemic era, the ‘trendy’ indoor sports centre concept has evolved to cater to the hottest business trends. On the one hand, as a leisure business related to the physical and mental health of consumers, indoor sports have ushered in a new course for development to take after the epidemic. More and more consumers in China are now paying more attention to their health, so indoor sports have gradually become a new way for family and friends to gather for entertainment since people have not been fully able to travel extensively. On the other hand, people in China are paying more attention to family companionship and parent-child time in the post-epidemic era, and an indoor stadium with immersive experiences and good safety and hygiene standards has become a new engine for shopping centre consumer footfall traffic generation.

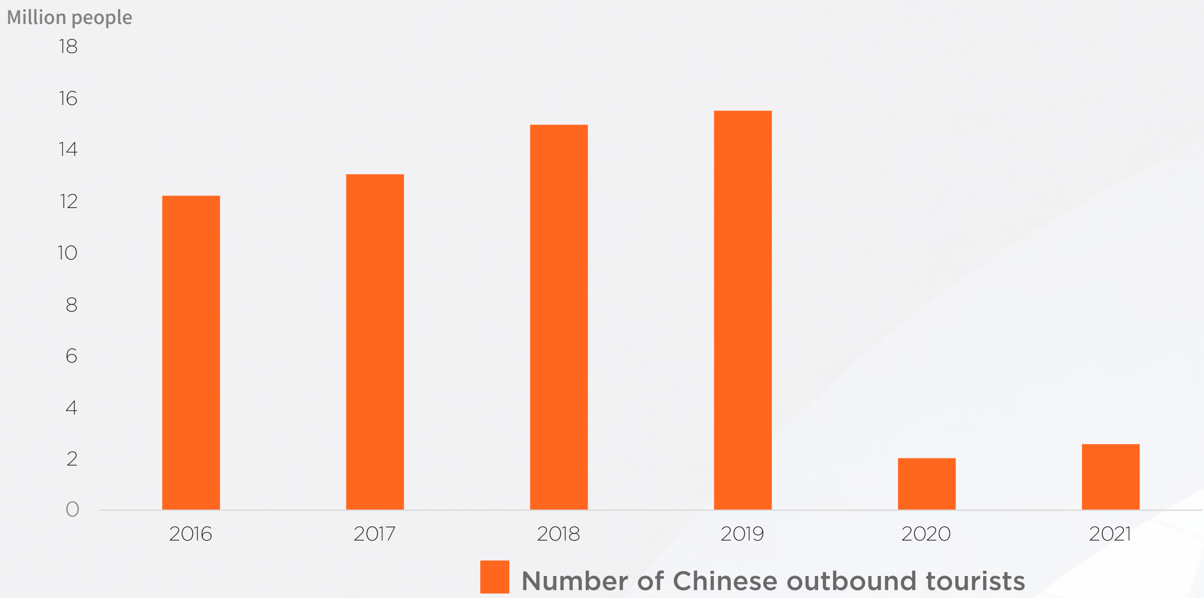
In this context, the advantages of ‘trendy’ indoor sports centres in China have been gradually revealed recently. Today, they are able to attract a large number of not only general consumers but also young parents and their new generation children.

Looking ahead, Chinese brands and shopping centres will continue to adopt new technologies and innovative business models to create more diverse ‘socialising +’ retail spaces to meet the new needs of consumers in the country.

Tourist attraction-type shopping centres are on the rise

With the improvement of people's living standards in China, the consumption of culture and tourism has been continuously upgraded. However, due to the ravages of COVID-19 worldwide, the number of outbound trips by Chinese nationals have plummeted. According to relevant statistics from Qianzhan, under the impact of the epidemic, the number of outbound tourists in 2020 was 20.334 million, which decreased 86.9% from the same period last year. Compared with the scale of over 100 million trips before the epidemic, outbound tourism in 2021 is still basically at a standstill (Figure 33).

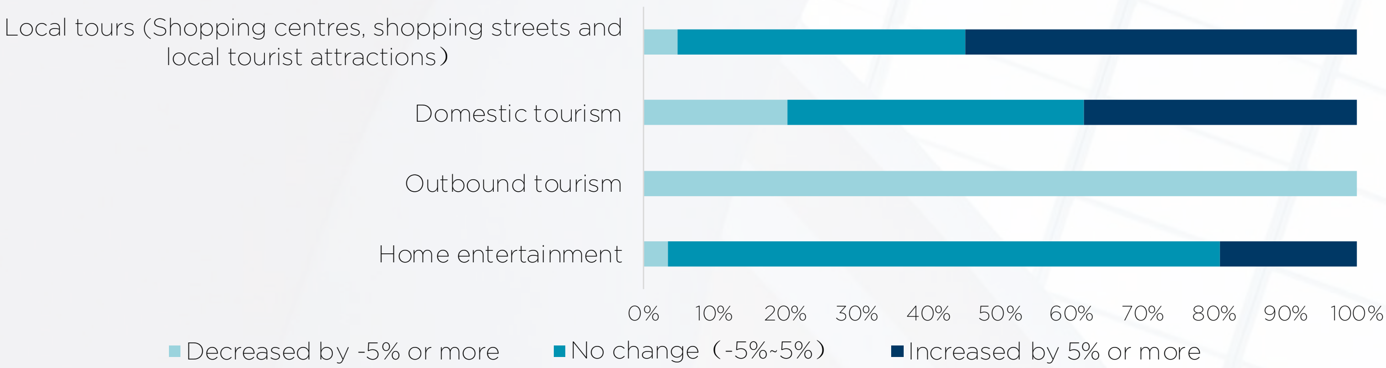
Figure 33: The number of Chinese outbound tourists (2016-2021)



Source: Qianzhan, Cushman & Wakefield Research

On the other hand, under the regular epidemic prevention and control and dynamic zero COVID-19 strategy, the epidemic was basically controlled between early 2020 and early 2022. During this time, domestic consumption maintained a steady and positive momentum in China. According to Cushman & Wakefield statistics, compared with 2019, during weekends and holidays in 2021, nearly 56% of consumers in China increased their spending in local shopping centres and shopping streets and at tourist attractions (Figure 34).

Figure 34: Changes in consumption patterns on weekends and holidays in China (2019 and 2021)



Source: Cushman & Wakefield Research

Under these circumstances, tourist attraction-type shopping centres in China that combine new forms of culture and tourism on their doorsteps have become attractive focus consumption points for consumers in country.

Following on from this, the implantation of cultural and tourism elements can enrich commercial retail spaces in terms of the content and transform the original business model from being just a model driven by purchasing to a model driven by immersive experience. The era of the tourist attraction-type shopping centre in China is now here already, and here are a few project examples:

Beijing Fun: Beijing Fun opened in 2017 and has transformed the Beijing Qianmen Dashilan Historic District into a low-density commercial district which offers both historical features and a modern trendy style. The "Chinese Lifestyle Experience Area" with a total construction area of 146,000 sq m integrates elements of culture, art, tourism, and lifestyle. Through the cluster architectural design, the spatial pattern of "one main street, three squares, and multiple hutongs" is presented, realising the organic integration of new and old buildings. Beijing Fun has promoted the integration of Beijing's cultural tourism and experiential retail and is a model for urban renewal projects that integrate historical and cultural characteristics with commercial trends (Case study 1 in the Appendix).

Raffles City The Bund: Raffles City the Bund has become a well-known Internet celebrity check-in place in Shanghai. Part of the B2 floor has been transformed into an old Shanghai retro street. The alley scene in the 1990s is reproduced realistically, to reproduce the historical features of the Tilanqiao block. Combining with the regional characteristics of Shanghai and focusing on the theme of "culture, art, technology, and tourism", Raffles City the Bund provides tourists and consumers with a shopping centre with rich business forms, strong themes and diversified features (Case study 2 in the Appendix).

Yongqing Fang: Yongqing Fang is a benchmark urban renewal project in Guangzhou and a window for foreign exchange regarding Lingnan culture. The first phase has opened a variety of business formats, such as characteristic homestay clusters, cultural experience stores, characteristic F&B, creative offices, and art exhibition spaces. The second phase will create colourful functions, such as a time-honoured street, a Xiguan-style experience area, a waterfront leisure and dining area, a complex cultural exhibition centre, an immersive cultural experience area, an office and living area, etc. It is fast becoming a new check-in resort and pop scenic spot in Guangzhou (Case study 3 in the Appendix).

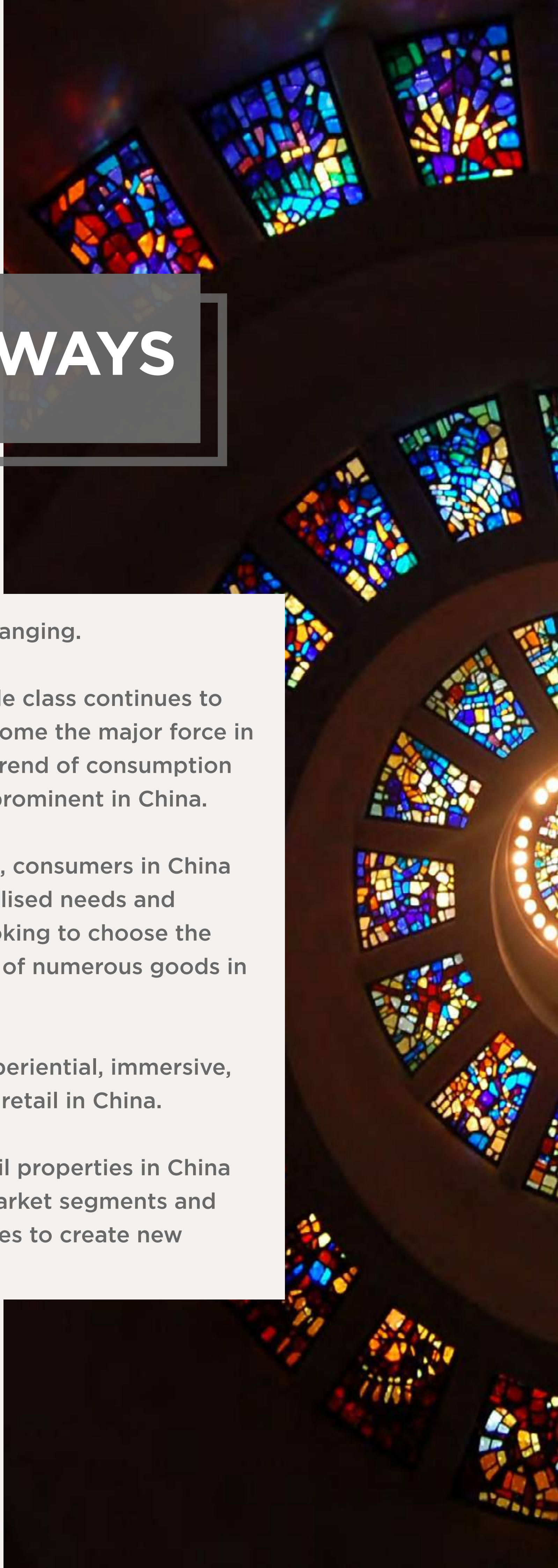
Nantou Ancient Town: Nantou Ancient Town in Shenzhen has not only introduced diversified business formats with local or Hong Kong and Macao characteristics, such as specialty restaurants, boutique retail, cultural and creative space, and public exhibitions, but has also organised art festivals, theme exhibitions, light shows, traditional opera performances and leisure activities. Additionally, various forms of creative activities have attracted residents and domestic and foreign tourists to frequent the project for recreation and consumption. Nantou Ancient Town is a classic retail project integrating historic site restoration and protection, sustainability and cultural tourism (Case study 4 in the Appendix).

Li Ning's First City Concept Store: In June 2021, Li Ning's First City Concept Store was officially opened in Kuanzhai Alley in Chengdu. Through the large-scale use of bamboo weaving in Western Sichuan, brand products are placed in a leisurely bamboo forest. The store space also promotes Li Ning's brand culture through exhibits and memorial walls, realising the mutual empowerment of the brand, architectural texture and Chengdu culture (Case study 5 in the Appendix).

Wenheyou: As a famous cultural and tourism landmark in Changsha, Wenheyou receives about 10 million consumers annually. As a whole, the project is built into an old Changsha retro district. The collection of old buildings is used as decorative design elements. The exposed nostalgic streets and mottled blue brick walls recreate street and lane scenes of Changsha in the 1980s and 1990s. There are not only farms, lottery shops, billiard halls, photo studios, barbershops and other scenes, but also various snack kiosks, old-fashioned convenience stores, and even cable cars passing through the space. Combining different formats and functions, Wenheyou creates an immersive nostalgic food city with "culture + brand" labels (Case study 6 in the Appendix).

Looking forward to the future, tourist attraction-type shopping centre development will continue to gain momentum in China. Shopping centres and commercial streets will not only be places for consumption, but also experience spaces with functions and features, such as culture, fashion, art exhibitions and entertainment to meet the spiritual consumption needs of tourists.

KEY TAKEAWAYS



- China's consumer market is changing.
- As the proportion of the middle class continues to rise, and Generation Z has become the major force in the consumption market, the trend of consumption upgrading will become more prominent in China.
- In the era of new consumption, consumers in China pay more attention to personalised needs and shopping experience when looking to choose the right product from a selection of numerous goods in the market.
- This will give birth to more experiential, immersive, socialised and comprehensive retail in China.
- Retailers and landlords of retail properties in China are currently exploring new market segments and emerging demand opportunities to create new scenarios that realise value.

APPENDIX

Case study 1

Beijing

Beijing Fun

A model for urban renewal integrating historical and cultural characteristics with commercial attributes

Overview:

- Beijing Fun is located in the Qianmen Dashilan Area. The area is punctuated with historical and cultural buildings and is a model area for urban renewal in Beijing;

- The project is adjacent to Tiananmen Square, the National Grand Theatre, the National Museum and other famous tourist and cultural venues. It has a total construction area of 14.6 million sq m.

Impact:

- Beijing Fun opened in 2017, transforming the Beijing Qianmen Dashilan Area into a low-density commercial block filled with historical and cultural characteristics as well as an area sporting modern fashion styles;

- The project has introduced diversified brands focusing on "new lifestyle", fashion spotlights and cultural tourism characteristics, and has become another Internet-famous site for Beijing's "trendy and artistic" youth.

How it was done:

- Beijing Fun is positioned as a "Chinese lifestyle experience area", integrating culture, art, tourism, lifestyle and other elements into it;

- The project has a spatial pattern of "one main street, three squares and many hutongs" through its cluster architectural design. The project realises the organic integration of new and old buildings;

- All buildings are low-rise with no modern commercial glass curtain wall buildings situated in the project area. Integrated into the project are traditional building materials, such as wood, stone, brick, tile and other traditional materials, which lends itself well to those cultural-related merchants and brands to locate and do business within the project;

- In terms of the design, special attention was paid to "empty space", which met the needs of introducing cultural exchanges, art exhibition and brand product launches and other special activities.

Results:

- After opening, Beijing Fun has greatly improved and enriched the business environment of the Qianmen Area and has realised the consumption and experience needs of different consumer groups, such as tourists, "trendy and artistic" youth and local traditional consumers;

- Beijing Fun promotes the integration of cultural tourism and commercial experience in Beijing. Through cooperation with the National Grand Theatre and well-known enterprises, a number of outdoor performances, exhibitions and cultural exchange activities are introduced to the project every year, which further enhances its commercial vitality.

Key takeaways:

- Beijing Fun not only retains traditional cultural characteristics in its architectural design, but also fully integrates regional culture to create a business model combining cultural tourism, art and consumption;

- This project has realised the mix of historical and cultural heritage and commercial development and is a model for the upgrading and promotion of old commercial blocks and projects in Beijing.

Case study 2

Shanghai Raffles City The Bund

A retro-inspiring shopping centre for Shanghai

Overview:

- Raffles City The Bund is the tenth Raffles City project in the world and the third Raffles City project in Shanghai;
- The GFA of Raffles City The Bund is 120,000 sq m. The project has introduced more than 200 brands.

Impact:

- Raffles City The Bund attracts not only a large number of local consumers, but also domestic and international tourists and consumers;
- Raffles City The Bund has become a new Instagram-worthy location.

How it was done:

- Part of B2 floor in the shopping centre has been retro developed to look like the old Shanghai street scenes from the Tilanqiao Area in the 1990s;
- The "bridge + spark" complex space on floor L1 provides a platform for brand display and incubation, as well as a social gathering place for consumers;
- The shopping centre has also set up various types of pedestrian corridors, including the connection between the pedestrian overpass and floor L2, the seamless connection with Line 12 Tilanqiao Metro Station (Line 19 will be connected in the future) by underground and above-ground entrances.

Results:

- Tourists and consumers are from all over China given the wide-ranging retail, F&B and entertainment offering to be found at Raffles City The Bund;
- More than 50% of the stores are first stores in China, East China or Shanghai.

Key takeaways:

- Combined with Shanghai style, Raffles City The Bund has something for everyone in terms of its all-around retail shopping experience;
- What's more, the diverse scenes and the activities organised are appealing to a wide range of age groups and go a long way in enhancing the shopping experience of tourists and consumers alike.

Case study 3

Guangzhou Yongqing Fang

An unmissable new landmark of Xiguan culture

Overview:

- Yongqing Fang is a benchmark project for urban renewal in Guangzhou and a window for foreign exchange regarding Lingnan culture;
- The first stage covers an area of about 8,000 sq m and the second stage covers an area of about 90,000 sq m.

Impact:

- The first phase of Yongqing Fang has been opened to the public and has already attracted many citizens and tourists to visit;
- The project embraces local characteristics and integrates fashionable urban elements into it, making it a unique and well-known shopping and leisure destination in Guangzhou.

How it was done:

- The first phase of Yongqing Fang has brought a variety of business formats, such as characteristic homestay clusters, cultural experience stores, distinguished feature catering, creative offices and art exhibition spaces;
- The second phase will create a time-honoured street. For example, the Xiguan style experience, waterfront leisure dining, a complex cultural exhibition centre, immersive cultural experience office and living area, all combine to create a new experience combining the original city style with the new way of living at hand;
- The second phase adheres to cultural leadership in terms of business formats, combines tradition and innovation, exudes a high-quality feel and strengthens the night economy industry.

Results:

- The first phase and the second phase complement each other in terms of scene construction, commercial formats and brand store, attracting consumers to linger, browse and consume at all times;
- While retaining the style of Lingnan architecture, relevant fresh and fashionable elements have been added.

Key takeaways:

- Yongqing Fang has created and offers a number of creative scenes to attract consumers and promote retail-related sales and services;
- Today, Guangzhou Yongqing Fang is a successful regeneration project that is now an urban landmark in the city of Guangzhou.

Case study 4

Shenzhen Nantou Ancient Town

Embracing its original village roots, Nantou Ancient Town has transformed into a cultural place for social media experience sharing

Overview:

- The renovated old town has become a place featuring historical heritage, innovation, art and urban life, and has created a vibrant ecosystem featuring creative vitality and quality humanistic life;
- It covers an area of about 93,000 sq m. The demonstration section of North and South Street was officially opened in 2020, and the East and West Street and IF factory will be opened in 2021, successively.

Impact:

- Since the opening of north and south main streets, Nantou Ancient Town has received a total of about 1.2 million tourists in one year;
- As a bright cultural business card for Shenzhen, the ancient town is able to further drive regional economic development.

How it was done:

- Some buildings combined the natural landscape into their foyers, atriums and verandas by integrating flowers and trees, thus endowing the buildings with not only modern landscape characteristics, but also with scenes of vegetation and nature;
- Local, Hong Kong and Macao elements have been actively introduced into the area;
- Cultural exhibition space integrates the latest technology. Art exhibitions are held in the space bringing visitors an immersive, representational and interactive digital experience;
- Through various creative activities, such as art festivals, themed exhibitions, light shows, traditional opera performances and leisure runs, local residents and home-and-abroad tourists are attracted to the area for recreation and consumption.

Results:

- The diversified best-practice placemaking in Nantou Ancient City not only attracts young people, but also attracts the old people who like to wander and take photographs in and around Nantou Ancient City;
- The project introduces diversified formats, such as specialty catering, boutique retail, creative spaces and public exhibitions, and also holds regular cultural and sports activities.

Key takeaways:

- The north and south blocks combine the four formats of cultural and creative boutique retail, traditional catering, new leisure facilities and cultural living accommodation to rejuvenate the cultural lifestyle of the area;
- Nantou Ancient City is a classic commercial project integrating historic site restoration and protection, sustainability enhancement and cultural tourism.

Chengdu Li Ning's First City Concept Store in China

Realising the mutual empowerment of brand, architectural flair and Chengdu culture

Overview:

- Kuanzhai Alley is an ancient street leftover from the Qing Dynasty era. Located in Chengdu, the alley is a “national model pedestrian street”;

- In June 2021, the Li Ning’s first city concept store was officially opened in the alley;

Impact:

- In recent years, Kuanzhai Alley has carried out a large-scale brand adjustment, and introduced Li Ning, Pop Mart and other brands which can generate their “own footfall traffic”;

- In addition, relying on original architectural style, the brand has created a unique consumption scene by “customising” the store, realising the mutual empowerment of the brand, and intertwining architectural flair and Chengdu culture;

How it was done:

- The interior of the Li Ning Kuanzhai Alley concept store can be roughly divided into three parts: front, middle and rear;

- The front area is mainly for product display. Through the large-scale use of bamboo weaving incorporating Western Sichuan characteristics, the products are placed within a bamboo forest. The space realises the integration of trend and culture;

- Although the mid area pays more attention to the display and sales functions of products, it continues the cultural design seen in the front area of the store. Not only that, but Li Ning also built a tea break area in the atrium of the store. In addition to serving as an area of respite for consumers, the tea break area is also a nod to the leisurely and comfortable lifestyle of the people of Chengdu.

- Entering the back area of the store, Li Ning’s cultural exhibition area can be encountered. This area informs consumers about Li Ning’s development and transmits Li Ning’s brand culture through exhibits and memorial walls, to realise consumers’ recognition of brand value and drive the occurrence of purchase behaviour.

Results:

- In February this year, Li Ning Kuanzhai Alley concept store won the 2022 Paris Design Gold Award for its unique aesthetic concept and space involvement.

Key takeaways:

- Courtyard 24, where the Li Ning store is located is the only courtyard in Kuanzhai Alley that completely retains its original architectural structure;

- In the later design and construction process, the brand not only maintained the original appearance of the building but also boldly integrated Western Sichuan characteristics to display Chengdu folk customs, ancient customs related to wide and narrow alleys, Chinese culture and Chinese sports trend culture.

Changsha Wenheyou

A mix of catering and culture, creating an immersive and nostalgic food court

Overview:

- The project is located in Changsha Hisense Square, and is the first Super Wenheyou store in China;
- The first phase opened in 2018 and was expanded to seven floors with an area of approximately 20,000 sq m in 2019.

Impact:

- Since its opening, the project has attracted a large number of domestic and foreign tourists and consumers, making it a well-known social media spot in Changsha;
- As a famous cultural and tourism landmark in Changsha, it receives about 10 million consumers every year. On National Day in 2019, around 30,000 people were attracted to the project during this time alone.

How it was done:

- The project as a whole is designed and decorated to be a retro-looking urban block from Changsha's 1980s and 1990s past;
- Elements like nostalgic streets and mottled blue brick walls create a sense of old times. In the pavilion, there is not only a lottery shop, a pool hall, a photo studio, a barber shop and other scenes, but also various snack kiosks, old-style convenience stores, and even a cable car running through it. The contents of different formats and functions are combined to provide a more three-dimensional and rich leisure experience;
- The main colour of the building is grey, and the logos of all kinds of stores are all designed in dark colours in accordance with the overall architectural style. The well-arranged stairs connect different stores on different floors.

Results:

- The vivid scene not only fit the nostalgia feelings of the post-80s and -90s, but also attracts the post-00s who love fashion to visit and take photos;
- The project introduces the Xiaogongchang Workshop, feet massage shops, Modern China Tea Shop (Cha Yan Yue Se) into it, reflecting Hunan culture and creating a platform combined culture with brand labels.

Key takeaways:

- Combining with lifestyle of old Changsha, Changsha Wenheyou provides consumers with rich experience of various formats focusing on eating, drinking, playing and having fun to attract consumers to stay longer;
- The immersive project with nostalgia feelings has become famous in Changsha, attracting more tourists to visit and adding vitality to the commercial industry in Changsha.

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