

CHINA

Cushman & Wakefield
Global Cities Retail Guide



The People's Republic of China (commonly known as China or the PRC) is located in East Asia. A decade of strong economic growth, rising household incomes, and rapid urbanisation coupled with government initiatives aimed at boosting domestic consumption have fuelled rapid growth in China's retail sector.

With international brands overwhelmingly positive about China's potential as a retail market, China is becoming key to the business strategies of many global retailers. For many retailers, China is a must-win market and according to WLA (World Luxury Association), it is now the world's second largest luxury market.

China's GDP grew 6.6 percent to 90.03 trillion yuan (\$13.25 trillion),

China has grown to such an extent that the approximately 6.6 percent to 90.03 trillion yuan (\$13.25 trillion) in GDP that the country added between 2017 and 2018 is about the size of Sweden's entire economy. China's huge population base and rapid urbanisation are two key drivers of retail sales. Among the 20 major cities, there are over 14 with a population over 10 million.

According to a study from McKinsey & Company, there will likely be 350 million more new urban residents and upwards of 200 cities with a population of over 1 million by 2025, that is approximately 3 times that of the US. From this perspective, China's urbanisation story is still in its early stages.



CHINA

ECONOMIC OVERVIEW

ECONOMIC SUMMARY

| ECONOMIC INDICATORS* | 2018 | 2019F | 2020F | 2021F | 2022F |
|----------------------------|------|-------|-------|-------|-------|
| GDP growth | 6.6 | 6.1 | 5.8 | 5.4 | 5.2 |
| Consumer spending | 6.9 | 6.8 | 6.5 | 6.3 | 6.1 |
| Industrial production | 6.2 | 5.0 | 4.6 | 4.3 | 4.0 |
| Investment | 4.4 | 4.4 | 4.3 | 3.9 | 3.8 |
| Unemployment rate (%) | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Inflation | 2.3 | 2.6 | 2.7 | 2.8 | 2.8 |
| Yuan/ € (average) | 7.8 | 7.7 | 7.6 | 7.5 | 7.5 |
| Yuan/ US\$ (average) | 6.6 | 6.8 | 6.5 | 6.3 | 6.2 |
| Interest rates 3-month (%) | 3.3 | 3.7 | 3.8 | 3.8 | 3.8 |
| Interest rates 10-year (%) | 4.0 | 4.1 | 4.3 | 4.5 | 4.5 |

ECONOMIC BREAKDOWN

| | |
|-----------------------|----------------------------|
| Population | 1.39 billion (2018) |
| GDP (nominal) | US \$12.25 trillion (2018) |
| Public Sector Balance | -3.8% of GDP (2018) |
| Public Sector Debt | 16.4% of GDP (2018) |
| Parliament | Communist Party of China |
| Head Of State | Xi Jinping |
| Prime Minister | Li Keqiang |
| Election Date | March 2018 |

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

| CHINA | 2018 | 2019F | 2020F | 2021F | 2022F |
|----------------|------|-------|-------|-------|-------|
| Retail Volume* | 7.6% | 7.0% | 6.6% | 6.4% | 6.4% |

Note: *annual % growth rate unless otherwise indicated. Figures are based on local currency and in real terms. E estimate F forecast

Source: Chinese National Bureau of Statistics .

| CITY | POPULATION (2018) |
|--------------|-------------------|
| Chongqing | 30,174,200 |
| Shanghai | 23,019,100 |
| Beijing | 23,002,400 |
| Chengdu | 14,047,600 |
| Tianjin | 12,938,200 |
| Guangzhou | 12,700,800 |
| Shenzhen | 10,357,900 |
| Shijiazhuang | 10,163,800 |
| Wuhan | 8,210,000 |



Source: Bureau of Statistics

Cushman & Wakefield | China | 2019

CHINA

RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Vanguard, RT-Mart, Yonghui Superstore, Wu-mart, Lianhua

MAJOR INTERNATIONAL FOOD RETAILERS

Walmart, Carrefour, Tesco, Metro, Aeon, Auchan

MAJOR DOMESTIC NON-FOOD RETAILERS

Alibaba, JD.com Inc., Suning Consumer Electronics, Xiaomi, Huawei, Gome Consumer Electronics, Dangdang Inc., VIPSHOP, Shanghai Bailian Group, Watsons Group

INTERNATIONAL RETAILERS IN CHINA

Apple, UNIQLO, Nike, Adidas, Ikea, Decathlon, Inditex Group (Zara, Bershka, Pull & Bear etc), MUJI, H&M, GAP

FOOD AND BEVERAGE OPERATORS

Starbucks, Costa Coffee, Haagen-Dazs, Break Talk, Dairy Queen, Ichido, Ajisen Ramen, Burger King, YUM! (KFC, Pizza Hut), McDonald's, Wagas, Subway, Element Fresh, Haidilao

TYPICAL HOURS

MONDAY – THURSDAY

10:00 – 22:00

FRIDAY – SUNDAY

10:00 – 22:00

Applied to shopping centres during normal operating hours.
There are some minor regional and seasonal variations in opening times.

NEW ENTRANTS TO MARKET

| | | | | |
|-----------------------------|----------------------|----------|-------------------------|--------------|
| %Arabica | PEET'S COFFEE | HEYTEA | GREYBOX COFFEE ROASTERS | Byton |
| IKEA experience store | T-B-H The Beast Home | Champion | Canada Goose | Acne Studios |
| LEGO/ LEGO Discovery Center | FAO Schwarz's | NBA | KEEPLAND | Super Monkey |



CHINA

RETAIL SCENE

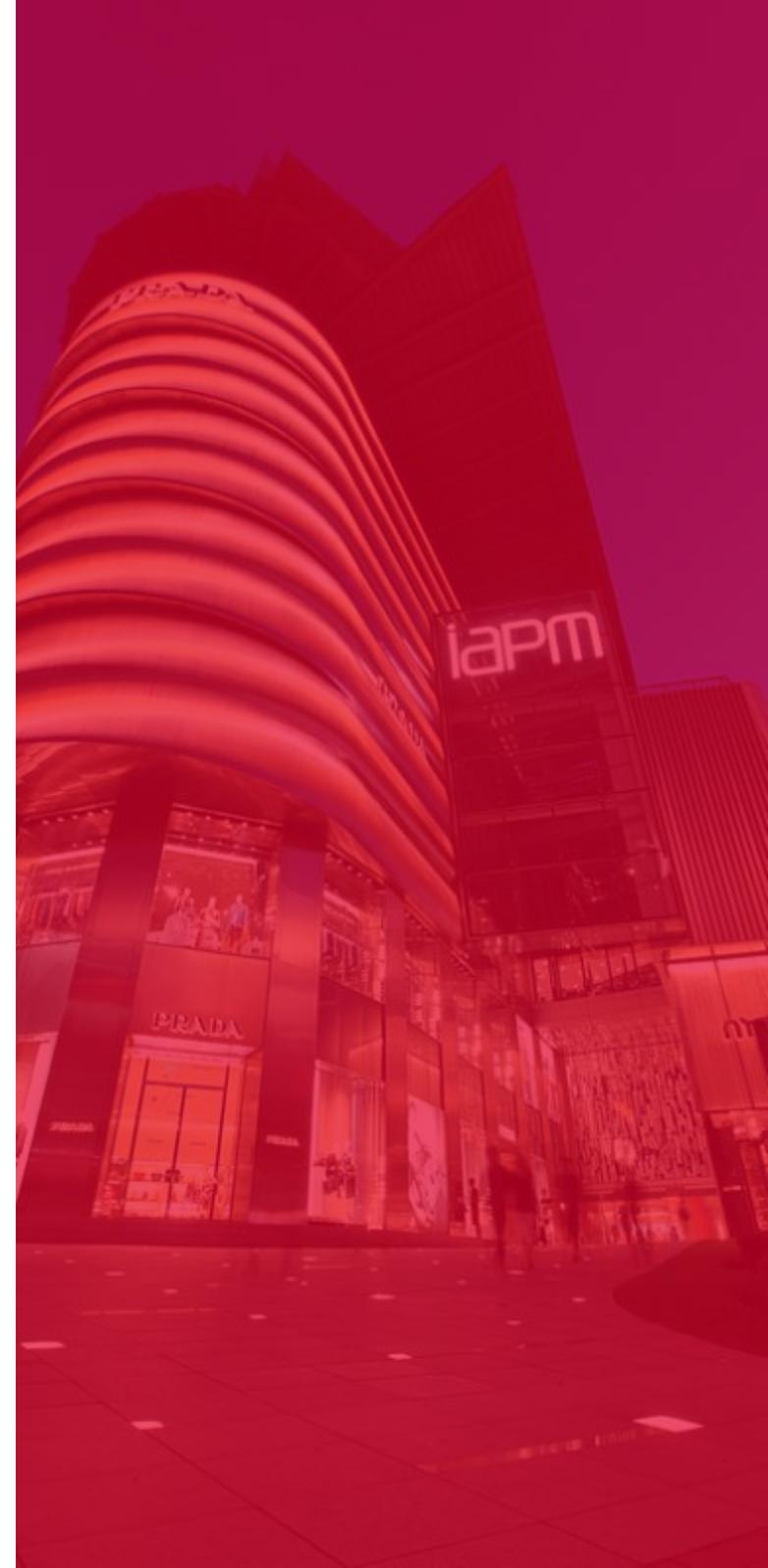
Chinese retail market trends point to the expansion of China's 2nd and 3rd-tier retail markets, where new opportunities are still untapped compared to the country's larger cities. However, adapting to local market environments and consumer shopping habits will remain a challenge for developers.

While many international luxury brands have not achieved high sales revenues in recent years and thus slowed their pace of expansion, some still have plans in action. Landmark projects located in core submarkets will have rising rents, while those in regional or emerging submarkets will experience more modest rental growth. China's retail market continues to evolve on the back of a rapidly widening consumer base of increasingly savvy, brand-aware shoppers with an eye for new and sophisticated retail experiences. F&B outlets, especially trendy and experience-focused brands, of which social media recently has been a buzz, remain the major driver of retail absorption. Sports and health-oriented brands are expanding at a rapid pace as well, as Chinese consumer tastes and habits grow for following healthy lifestyles. Sports retailers are using a combination of online platforms and bricks-and-mortar stores to introduce new product lines and enhance the shopping experience. Fitness centres and healthy dining options have also become increasingly popular.

Shopping centres dominate the retail market. As purchasing power and demand for an integrated shopping experience increase, shopping malls dominate the retail real estate market in 1st-tier and 2nd-tier cities. Shopping centres leverage public holidays to launch discounts and promotions, as well as hosting themed events and exhibitions, showcasing technologies such as 3D and Virtual Reality (VR) to increase footfall and sales.

New retail experiences are on offer, with tier-1 markets adding interactive escape game rooms, an official LEGO store and VR centres. Shopping centres in particular are leveraging experience-led retail to grow customer loyalty and serve not only as a shopping destination but also places for entertainment, public events and community gatherings. The ongoing decentralisation trend in tier-1 cities has picked up speed as shopping centres target growth opportunities in suburban areas away from crowded city cores. In tier-2 cities, while there is risk in some cases of shopping centre failure due to many developers' lack of management experience, retailers will continue to seek out well-located and well-managed centres. Meanwhile, department stores continued to face downward pressure. Following Marks & Spencer's exit from China in 2018, several other department stores in tier-1 cities also shut their doors. A number of retail properties also adjusted their tenant mix and carried out upgrades to boost performance amid intense competition and a fast-changing retail market. These new stores aim to break away from the traditional product-display model found in typical department stores by distinctively designing the store's fit-out around various themes of a modern city.

China's online retailers continue to expand their offline business. Alibaba purchased an 18% stake in Lianhua Supermarket and seeks to expand deeper into traditional retail. Leveraging big data, new technology and a strong logistics platform, traditional brick-and-mortar retailers are remodelling the market by increasing business efficiency and enhancing the shipping experience – aiming to build up an all-encompassing retail business ecosystem. Meanwhile, "New Retail" has become another hot topic in China. As an innovative retail model, this emerged in response to ever-growing consumer demands for retail experiences, emphasising integration of online, offline and intelligent logistics.



CHINA

SHOPPING CENTRES

TOP SHOPPING CENTRES BY TURNOVER

| NAME | CITY | TURNOVER (US\$) |
|----------------------------------|-----------|-----------------|
| Beijing SKP | Beijing | 1.95 billion |
| Deji Plaza | Nanjing | 1.44 billion |
| China World | Beijing | 1.31 billion |
| The MIXC | Shenzhen | 1.23 billion |
| SAGA International Shopping Mall | Xi'An | 1.02 billion |
| GR shopping mall | Beijing | 0.91 billion |
| Chengdu IFS | Chengdu | 0.86 billion |
| Teemall | Guangzhou | 0.84 billion |
| Sino-Ocean Taikoo Li Chengdu | Chengdu | 0.82 billion |
| David Plaza | Zhengzhou | 0.76 billion |

CHINA

KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE

| ITEM | COMMENT |
|--|---|
| Lease Terms | 2 to 3 years for most smaller tenants in shopping malls, 5 years or longer for F&B tenants in shopping malls, and up to 15 years for fashion anchors and up to 20 years for supermarkets |
| Rental Payment | In street shop locations rents are typically base rent only, in department stores a percentage of sales only is payable, while in shopping malls the emerging standard is to pay the higher of base rent or a percentage of sales. |
| Rent Review | Basis of the rent review is open market rental value, and the frequency is negotiable. |
| Service Charges, Repairs and Insurance | Tenant is typically responsible for maintenance within their own premises. Landlord is responsible for maintenance of common areas and this is charged back through a management fee which is typically RMB 70-100 per sq.m per month for shopping malls in Shanghai and Beijing. An additional promotion fee may also be charged. Landlord is also responsible for the external and structural maintenance of the property. Tenant is often required to take out insurance for fire and 3rd party liability. |
| Property Taxes and other costs | Landlords bear all property related taxes such as Urban Real Estate Tax, business tax for rental income. Landlords and tenants normally share the stamp duty cost, which is minimal. |
| Disposal of a Lease | Assignment / Sub-letting is typically not allowed. And early termination is by negotiation only, however non performing tenants often negotiate early termination. About the Tenant's Building Reinstatement Responsibilities at Lease End, typically is original condition, however many landlords willing to negotiate at the time of withdrawal. |
| Valuation Methods | Retail valuation methodologies are not very well established however international methodologies such as RICS are increasingly recognized. |
| Legislation | Guangzhou and Shanghai have standard leases but Beijing and most other Chinese cities do not. The standard leases can be adapted by means of supplementary clauses. |

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