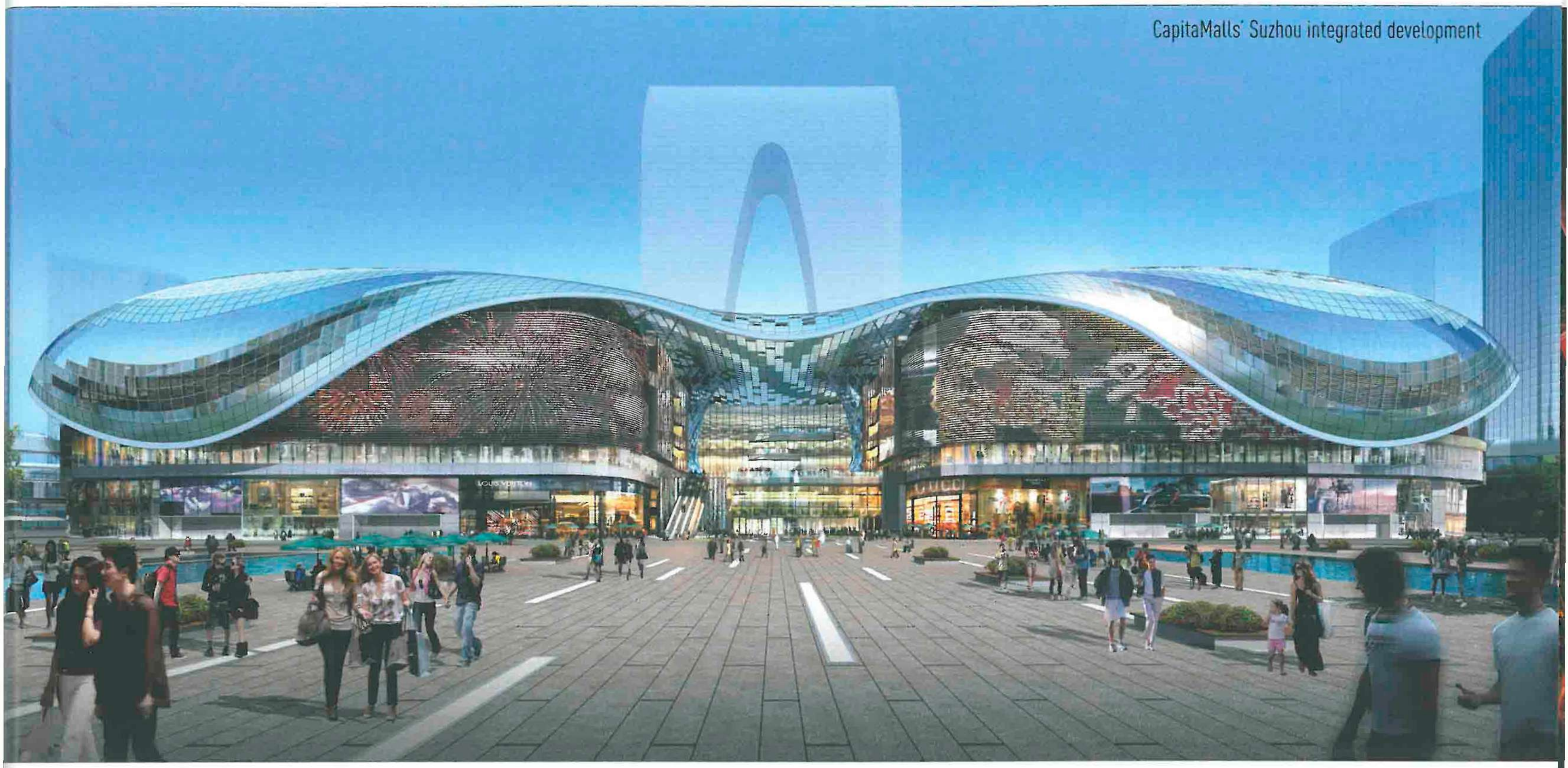
CapitaMalls' Suzhou integrated development

SPOTLIGHT ON ASIA

China grapples with online and entertainment

Retail expansion in China is becoming more focused and selective. Even so, writes Mia Hunt, the country continues to lead the world in terms of its development pipeline

WITH retail sales hitting $8 trillion in 2013, accounting for 50% of the world's retail sales, Asia is the largest global retail market. It is also home to the world's second and third largest retail economies in the shape of China and Japan. And with the Asia-Pacific region's expanding middle classes continuing to drive growth, its market worth is predicted to reach $12 trillion in 2016.

Activity remains strong in Hong Kong, Singapore, Japan and Australia, but it is China that is driving growth in Asia-Pacific.

"Investment and development activity in China has gone wild"
James Hawkey
Cushman & Wakefield

Despite the fact that its economy has slowed, China dwarfs the region's other markets when it comes to retail spend, investment and development activity, which is booming in most major cities. Of the global pipeline, half of the world's activity is happening in China.

"Investment and development activity in China has gone wild," says James Hawkey, managing director of retail, Asia-Pacific, for Cushman & Wakefield. "There is reasonable development in the rest of Asia, with a healthy pipeline in India, Vietnam, Malaysia and Korea. But it's nothing compared to China, where we're tracking 49 million sq m due for completion between 2014 and 2016 in 30 cities. Nearly every city is in danger of over-supply."

In all, 34 shopping centres have opened in the last six months in China and, by the end of

Feature

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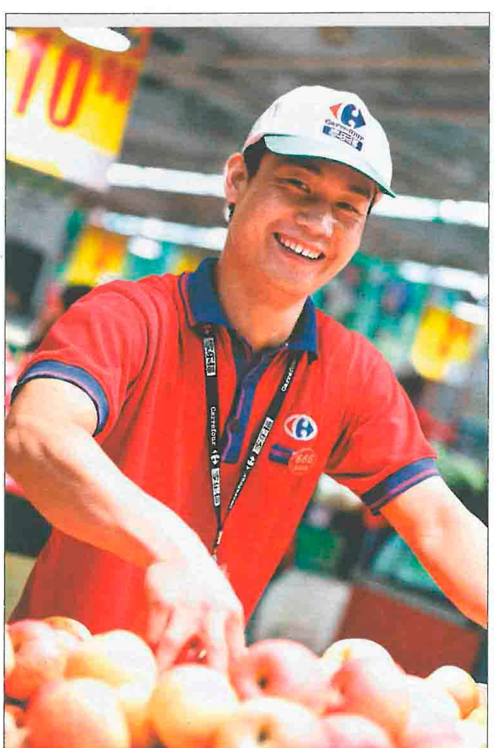
>
> **Tom Gaffney**
>
> JLL

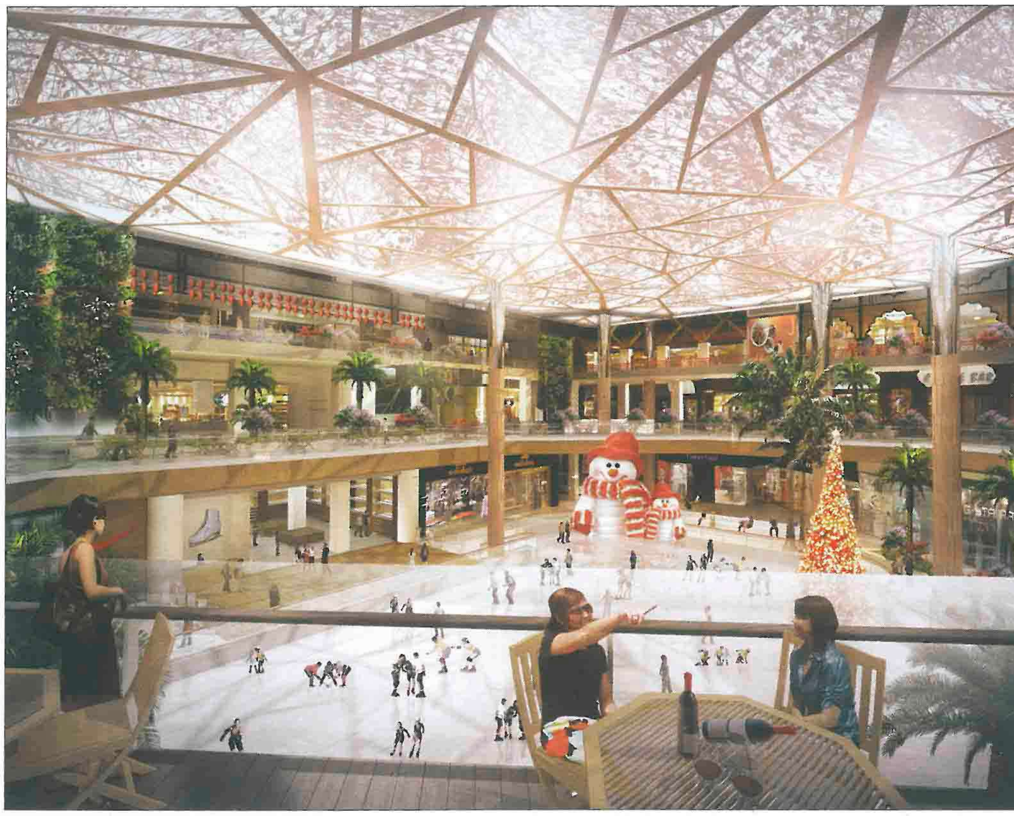
2015, the number of malls on the mainland is expected to have exceeded 4,000.

Dalian Wanda Group Corp plans to launch an e-commerce joint venture with internet giants Baidu and Tencent Holdings in a move to bridge China's online technology and Wanda's bricks-and-mortar retail space. The venture will enable customers to use Baidu and Tencent's online maps and access Wanda's luxury hotels, shopping malls and cinemas across China.

Wanda has been seeking ways to expand online. It operates 83 shopping malls in China and is run by Wang Jianlin, who has been on a shopping and building spree in recent years. In 2012, Wanda announced the $2.6bn acquisition of US cinema chain AMC Entertainment Holdings and, in August, the group acquired UK yacht-maker Sunseeker International.



Carrefour has grown rapidly in China



The ice rink arena at CapitaMall Tianfu in Chengdu

Last year, Wanda broke ground on the Qingdao Oriental Movie Metropolis, which will boast an area of 3.7 million sq m and include a film and television industrial park, a film museum, a celebrity wax museum, a film exhibition centre, an extreme car show, a tourism city, resort hotels, a yacht club, a seaside-bar street, an international hospital and a global IMAX research centre. The complex is expected to be operational in 2017.

While most of the developers are Chinese, there are international players too. Singapore-based CapitaMalls Asia is one of those leading development in China, with more than 60 shopping centres in 35 cities, and several more in the pipeline.

"China's retail property boom is largely fuelled by rapid urbanisation and a rising middle class," says Lim Beng Chee, CEO and executive director of CapitaMalls Asia, explaining that 60% of the country's population is expected to be living in cities by 2020. "In addition, the Chinese government is steering the economy to self-sustaining growth based on domestic consumption, instead of manufacturing driven by foreign investment."

Spurred by rising domestic consumption, China's retail markets are flourishing — in the first half of 2014, the country's retail sales rose over 12% year on year to €1.5 trillion.

While CapitaMalls has significant experience in developing, owning and managing shopping centres in Asia, the same is not true of many developers. "Some are very good and some leave a lot to be desired," Hawkey says. "Management and operations skills for shopping centres really are in short supply."

Tom Gaffney, head of retail at JLL's Hong Kong office, agrees. "There has been a slow-down in terms of retailer expansion," he says. "That's not to say retailers aren't still very positive about China — they are — but they are looking at the development pipeline and choosing schemes very carefully. There are high-calibre schemes designed by very good architects and developed by companies with a proven track record. Those are the ones retailers are interested in — they are being wary of trophy schemes."

The Chinese are well known for their love of luxury goods and, while a clampdown on corruption has slowed the market, Asia remains a key growth market for luxury brands, with some deriving 37%-46% of their global revenue from the continent.

The luxury outlet market is very much in an early phase of development in China, with variable levels of quality and operational ability.

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However, according to TH Real Estate, the sector is showing signs of positive growth as middle-class enjoyment of greater earning power makes itself felt. One outlet brand looking to expand is Florentia Village, which has one outlet in operation, two on site and a further five expected to open by the end of 2017. "The outlet market in China is prosperous with opportunity for rapid development," says Maurizio Lupi, managing director of RDM Asia, which develops and operates Florentia Village outlets on behalf of Silk Road Holdings. "There are over 400 outlets in China, but only 10 of them are in the leadership of this industry, so we [believe] that premium outlets have increasing potential in China."

In terms of retail categories, the Chinese market is diversifying. According to JLL's Gaffney, consumers in Hong Kong now want products of all quality levels. Whereas three to five years ago, it was all about luxury, now other categories, such as fast fashion and cosmetics, are part of the mix. It's a trend that has migrated to the mainland, where Jonathan Hsu, CBRE director of Asia-Pacific research, says the biggest shift has been from luxury towards lifestyle, leisure and entertainment.

"In general terms, most [Chinese] people buy at a low-entry price point, and mid-market fashion retailers like H&M, Zara, Uniqlo and Gap have exploded in growth in China," Hsu adds.

When it comes to international retailers moving into China, the US and European brands are leading the way, followed by Japanese and South Korean retailers. Premier brands like Ted Baker, J Crew, Karen Millen, Hackett, Jack Wills and Hollister have all entered, or are in the process of entering, China, as have lifestyle brands such as Lululemon. Of the lower priced retailers, New Look and Old Navy have made an entrance in the last year and Cushman & Wakefield's Hawkey expects to see dozens of other new names in the next two to three years across all categories.

> "Omni-channel is coming together. It isn't quite there yet, but it's making advances"
> **Joel Stephen**
> CBRE

Uniqlo's Asian expansion is being led by Chinese growth

Old Navy opened its first store in China on Shanghai's Nanjing West Road in February, and there are plans to open a further four in the 2014 fiscal year.

"China continues to be an important component of our overall expansion strategy and we are confident Old Navy will resonate very well with Chinese consumers," says Glenn Murphy, chairman and CEO of Gap Inc. "Bringing the Old Navy brand to China is a logical next step in delivering on our global growth strategy."

According to CBRE's Retail Trends: Asia Pacific report for the second quarter of 2014, retailers are focusing on the core markets of Beijing and Shanghai, as well as on cities like Guangzhou and Shenzhen in the south, which are being targeted by the mid-range fashion groups in particular. Outside the tier-one cities, Hangzhou is the major active market, while the appetite for expansion in tier-two locations such as Chengdu has faded.

CBRE's Retail Trends report also reveals that retailers across all categories are investing heavily in establishing their flagship presence; online retail continues to grow and is prompting landlords to include more entertainment options to attract people to their malls; and a number of fashion retailers are opening digital stores incorporating technology to enhance the customer experience and blend their online and in-store offerings.

"Omni-channel is coming together," says Joel Stephen, CBRE's head of retailer representation for China. "There has been a lot of investment in logistics, with retailers opening up their own websites for e-commerce and driving synergies between the web and the instore experience. It isn't quite there yet, but it's making advances."

According to Hawkey, China saw e-tail growth of 33% in the year to June 2014, with total online retail sales accounting for $176bn, some 8.4% of the country's total retail sales. Online platform Alibaba made $5.75bn during a one-day promotion last year — more, Hawkey points out, than even the best shopping

Nanning is just one of Wanda's projects

centres would make in a year.

"E-commerce is putting pressure on physical retail, so it has to focus on the advantages — the physicality and the social experience," Hawkey adds. "Shopping centres have become more vibrant and exciting. They're thinking about what differentiates them and embracing their own physicality. And they're starting to install technology like beacons and pedestrian flow-tracking systems to help them make their offers even more compelling. They recognise they need an offer that really plays to the full range of senses in a way that can't happen online."

Meanwhile, CapitaMalls Asia has earmarked a significant proportion — about 30% — for F&B and entertainment facilities within its retail mix in a bid to evolve its centres into lifestyle destinations. These attractions include children's playgrounds, Olympic-size ice rinks featuring rink-side dining, IMAX cinemas and cineplexes, pet parks, fitness zones, roof gardens and other communal spaces. And it is investing a huge amount in new technologies designed to engage its visitors.

In addition, Jihua Group plans to become one of the major players in the outlet industry by creating the first outlet network in China. Italian-based Arcotecnica Group has been appointed for the development of this ambitious project and its operational implementation. These sites will consist of fashion and luxury outlets, sport hubs, entertainment and hospitality services such as hotels, wellness centres, and restaurants.

Outside China, development is more cautious than it was four or five years ago. CBRE's Hsu, however, sees growth in new malls and department stores to tap into the growing consumer spending power across South East Asia. But the big trend, he says, is the growth of F&B brands in every market in Asia-Pacific, reflecting the region's increase in affluence.

In Hong Kong and Singapore, the consumption rate is slowing, partly because high rents are making retailers think harder about taking space.

Overall, both Stephen and Hsu see Japan as the most optimistic market outside China, both in terms of its economic prime districts and its secondary locations.

While the markets of Asia are hugely diverse, with some performing exponentially better than others, it remains an appealing continent for developers and retailers alike, both domestic and international. And when it comes to consumer spending, it is China that is holding aloft the continent's retail baton.