In 2018, new style tea drinks, coffee, fast food restaurants featuring single-theme products and healthy eating are increasingly popular. Given the constantly changing demands for experience and products in dining, we advise landlords of retail malls:

> To review their tenant mix and rebalance their portfolios to include more leisure dining restaurants as these are likely to increase foot traffic.

> To give preference to those F&B tenants which cooperate with professional food supply chain and technology providers, since those companies are likely to be more successful in the competitive F&B market.

Partnership with established supply chain and technology providers should facilitate the expansion in the F&B market. Examples include Luckin Coffee and Baman Beef Noodles.
New style tea drinks and coffee market

In 2018, new style tea drinks and coffee brands were the sub-sectors of F&B that attracted the most capital investment. Represented by HEYTEA（喜茶), Naixuedecha (奈雪の茶) and The Alley (鹿角巷), the active tea drink market has been fuelled by constantly growing demand. In China, delivery orders for made-on-site tea drinks grew 87% yoy in Q3 2018. Customers are paying more attention to the quality of ingredients, including tea leaves and the source of milk. Offering online pre-ordering and quick delivery services, and providing space for customers to socialise can also increase traffic. Therefore, landlords should pay increasing attention to the reputation of their tenants, including the quality of their products and the dining experience.

In 2018, China’s coffee consumption grew 10% yoy, outpacing both the US and Europe. However, we estimate that China’s annual per capita consumption of coffee is about five cups, significantly lower than the 400 cups in the US, and highlighting the growth potential for coffee in China. In addition, coffee shops have become one of consumers’ top locations for socialising. As a result, many coffee stores have expanded their product options to provide light meals, increasing both the transaction frequency and average spend. For example, Luckin Coffee has rolled out four different kinds of outlets for dine-in, pick-up and delivery service, and has constantly enriched its light meal and snacks options.

The rise of single-theme restaurants and healthy diets

Consumers are now more certain about their preferences, with 95% patronising a restaurant just for a specific dish or flavour, favouring restaurants like Baman Beef Noodle (霸蛮牛肉粉) and Xiaoheng Dumpling (小恒水饺) featuring single-theme products. These restaurants have shorter menus featuring only signature products and a few seasonal products, which increase the efficiency for both customers and retailers and so improve the overall dining experience. Besides, these new style Chinese fast food franchises are often backed by professional restaurant supply chain providers with central kitchens specialising in formalised and standardised production, thus enabling the brand to accommodate large demand with high stable quality.

Healthy eating is also gaining more attention. Based on the China F&B Report 2018, in 2017, restaurants featuring sweet-and-fresh flavours outnumbered restaurants offering highly flavoured with numb-and-spicy tastes by 940,000 outlets. In response to the trend, some F&B operators have made ingredient adjustments, including Withwheat Bakery (原麦山丘) and Luckin Coffee, both of which reduced the fat, sugar and carb levels in their products. In fact, many F&B brands are starting to recognise the huge demand for dining efficiency, opportunities to socialise and healthy diets, and have developed related sub-brands. A few examples are highlighted in the map on the left.

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1 Source: China Beverage Industry Trend Development Report 2019 by Meituan Dianping
2 Extrapolating from information provided by United States Department of Agriculture
Online sales and delivery can boost brand appeal

Under the growing trend of online-to-offline integration, many famous Chinese fast food brands including Baman Beef Noodle, Xibei and Chuange Fish Dumpling (船歌鱼水饺) have expanded their in-store dining by selling their signature products online. Online retailing and quick take-out delivery service have gradually become their major source of profit growth, even surpassing in-store sales, and increasing their brand appeal and customer loyalty. Landlords of shopping centres should pay attention to their tenants’ performance on online retailing sales and quick take-out delivery service to ensure they have tenants taking advantage of the growth in this sector.

Leisure dining is a good complement to other sectors

In shopping malls, leisure dining restaurants represented by tea drinks, cafés, bakeries, dessert shops and western fast food chains are mainly located on the lower floors, which is where most customers tend to window shop, and thus are good complements to other sectors. As a result, they help to prolong customers’ stay and so have become ideal options to improve the tenant mix in prime shopping malls.

Besides, the relaxing and cozy ambience in leisure dining restaurants offers opportunities for socializing throughout the day. This also reduces peaks and troughs throughout the day, leading to higher transaction frequencies.

Supply chain and technology help expand outlets

Support from established restaurant supply chain and technology providers is becoming more essential to success in the F&B market. We have observed that stable and profitable F&B operators are often backed by established suppliers in these areas, and the benefits are as follows:

Restaurants are restocked in a timely manner with professional cold chain technology, ensuring a stable and high-quality supply of ingredients.

Production is standardised and professional. This is key for tenants to be able to expand outlets quickly while ensuring the quality of products.

Ordering and paying by QR code scan, analysis of customer and transactional data, and provision of financial management can all assist in precision marketing, controlling labour and operations costs, and improving the dining experience.

Leisure dining restaurants help bring foot traffic for shopping malls

<table>
<thead>
<tr>
<th>PROLONG STAY</th>
<th>TARGET CUSTOMERS</th>
<th>SOCIAL PLATFORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideal options in between shopping and leisure activities, a good complement to other sectors in shopping centres</td>
<td>Healthy and fresh ingredients targeting white-collar professionals with higher spending power, same as prime shopping malls</td>
<td>Product options and price in between street food vendors and sit-down restaurants, able to provide space for socializing throughout the day</td>
</tr>
</tbody>
</table>

Source: Colliers International

Major F&B investments by sub-sectors 2018

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Brand</th>
<th>Investment round</th>
<th>Investment amount (RMB)</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee &amp; tea drinks</td>
<td>HEYTEA B</td>
<td></td>
<td>400 million</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>THE ALLEY A</td>
<td></td>
<td>20 million</td>
<td>June</td>
</tr>
<tr>
<td></td>
<td>Coffee Box B+</td>
<td></td>
<td>158 million</td>
<td>March</td>
</tr>
<tr>
<td></td>
<td>LELECHA Pre-A</td>
<td></td>
<td>&gt;100 million</td>
<td>November</td>
</tr>
<tr>
<td>Fast food</td>
<td>KAO B</td>
<td></td>
<td>45 million</td>
<td>June</td>
</tr>
<tr>
<td></td>
<td>Qing-Feng Steamed Dumpling Shop Strategic investment</td>
<td>92.1 million</td>
<td>August</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bliss Cake B</td>
<td></td>
<td>400 million</td>
<td>July</td>
</tr>
<tr>
<td></td>
<td>Hot&amp;Hot B</td>
<td></td>
<td>160 million</td>
<td>January</td>
</tr>
</tbody>
</table>

Source: Colliers International
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