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FOCUS ON QUALITY LED TO ACTIVE TENANT ADJUSTMENTS

Summary & Recommendations

We expect the new nation-wide tax cut measures implemented in Q4 2018 to stimulate household consumption. Meanwhile, facing the trend of increasing popularity of experience-focused retail, Beijing's retail leasing market is going through frequent tenant adjustments.

- In Q4 2018, the overall vacancy rate dipped by 0.2 pps. Backed by stabilising demand, overall rents were up by 0.2%.
- In order to differentiate their offering, landlords of projects should identify the needs of the target customer groups and introduce the relevant brands and mix. Additionally, as customers are becoming quality focused, creating a theme-related immersive ambience can prolong customers' stay at the malls.

		Q4 2018	Full Year 2019	2018–23 Annual Average
Demand	Trendy brands and local designer brands have been the most active sectors in Q4 2018, and the demand should continue. Leisure dining is also expanding.	▲ 175,000 sq m	▲ 437,000 sq m	▼ 329,000 sq m
Supply	In 2019, we expect a peak of nearly 500,000 sq m of new supply to enter the market, followed by lower supply in 2020 and 2021. Supply in 2022 should bounce back to 440,000 sq m, and dip to a low in 2023.	▲ 166,000 sq m	▲ 498,000 sq m	▲ 340,000 sq m

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–23 / End 2023
Rent	In 2019, rents ought to level off due to heavy new supply, but should still see a 0.3% yoy gain due to firm demand. In the following two years we expect rents to drop slightly, before bouncing back in 2023.	+0.2% ▲ RMB827	+0.3% ▲ RMB829	+0.1% ▲ RMB833
Vacancy	Following the trend of new supply, the vacancy rate in 2019 should climb 0.8 pps, and decline gradually in the following two years, before bouncing back to about 2.0% in 2022 and 2023.	-0.3pp ▼ 2.1%	+0.8pp ▲ 2.9%	-0.1pp ▼ 1.9%

Source: Colliers International
Note: USD1 to RMB6.86 as of end-Q4. 1 sq m = 10.76 sq ft; pp is short for percentage point;

Q4 2018 REVIEW

Beijing's real GDP growth rate in 2018 reached 6.6% yoy. The services sector saw growth of 7.3% yoy. Retail sales of consumer goods in 2018 were up by 2.7% yoy. We expect the new income tax cut measures that have been effective since October 2018 to stimulate retail demand, especially among the middle class. Consumers' responsiveness to innovative brands and sectors has also become a demand driver for Beijing's retail leasing market.

Two projects opened in Q4

Two new projects, KWG M. CUBE and CapitaMall Tiangongyuan were launched in Q4 2018. The combined 166,000 sq metres (1.79 million sq feet) of new supply has lifted total retail stock in Beijing to 5.93 million sq metres (63.8 million sq feet).

Trendy brands dominate the two projects, as both target young consumers. To create an immersive shopping experience and prolong customers' stay, M. CUBE has turned the rooftop into a waterfall garden. CapitaMall Tiangongyuan has opened a hand craft themed space at the underground level.

Both projects are well-served by subway lines and enjoy high occupancy rates of above 95%. As one of the few prime retail projects located outside of the South Sixth Ring Road in Daxing District, CapitaMall Tiangongyuan will serve an estimated catchment of 600,000 residents, and will potentially benefit more as the area is a major planned development zone, based on the third phase of the South City Plan released by the municipal government in September 2018.

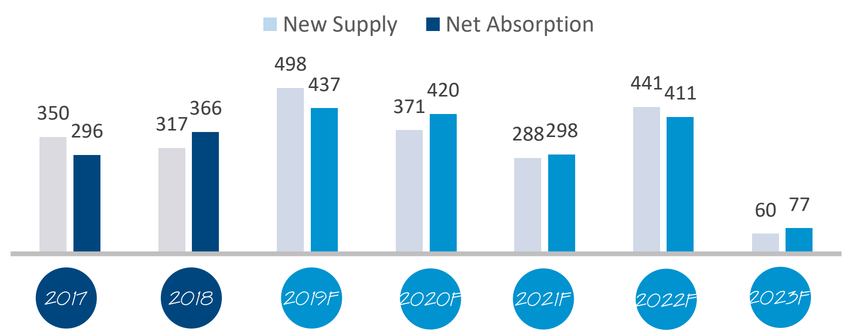
Shopping experience is more valued

Consumers are becoming less price-sensitive and more focused on quality. Brands that could bring refreshing experience visually and sensually are more favoured. Therefore, landlords continued their tenant mix adjustments. Overall the vacancy rate declined by 0.3pps to 2.1% in Q4 2018.

In Q4 2018, stylish brands and designer brands were the most active sectors. According to a joint report by OFashion and AC Nielsen, domestic consumption of stylish brands reached a growth rate of 62% in China in 2018. Sanlitun Taikooli, a shopping centre in the Sanlitun area of the Chaoyang district in Beijing, has been a winner in attracting foreign stylish brands in Q4 2018, with brands such as Isabel Marant, Sacai, AMI, Canada Goose, COS men, and Acne Studios all choosing Sanlitun Taikooli as a foothold by expanding their first store in China. F&B especially leisure dining has also seen rapid growth, as highlighted by Pacific Coffee's launch of two franchises in China World Mall, namely Brew Bar and LUXE. Brew Bar specialises in boutique coffee, while LUXE features self-roastery experience with coffee lessons, and offers more light meal selections than the parent brand as a means of differentiating products and increasing consumption frequency.

The incorporation of technology into retail among different sectors is also a strategy employed to draw attention and improve shopping experience. Several stores of Colorlab, a new concept makeup brand by Watsons teaming up with L' Oreal, were rolled out in Q4 2018, adding virtual makeup try-on to provide better makeup and product solutions. Haidilao Hotpot's first intelligent store opened in October, with staff replaced by robots for ordering, food preparation and dish serving. Lenovo also expanded into retail by experimenting with unmanned grocery stores, with the first Lecoo convenience store launched in October 2018.

New supply & net absorption, 2017-2023F ('000 sq metres)



Source: Colliers International

Mix-sector fulfils more diverse demands

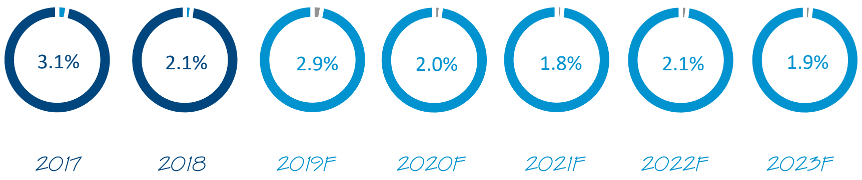
Notably, fusion of various sectors has become a new source of growth and should persist in the future. The new retail concept comes in the form of a single store, or a themed space, and a good example is DOCR at Joy City-Chaoyang, the first "self-growing space" in China launched in December. This is the union of 13 brands of different sectors, including a library which contains modern contemporary writer and artist Xiaosong Gao's personal books and media collections, a bookstore, a boutique café, a fitness centre, a restaurant with garden view, and a few other artistic and lifestyle brands. Visitors to DOCR are supposed to be surrounded by the concept of personal development and spiritual fulfilment.

Rents levelled off in Q4 2018

Shopping malls with a higher ratio of trendy brands, designer brands and experiential sectors were more favoured by customers and thus gained significant revenue growth. In contrast, the luxury market enjoyed less success in the past few months. We observed high-end shopping malls have introduced fewer luxury tenants in 2018, due to the increased use of cross-border e-commerce, and the fact that young customers are now chasing experience and sensation over material needs. As a result, shopping malls featured luxury brands have seen a moderate decline in rents.

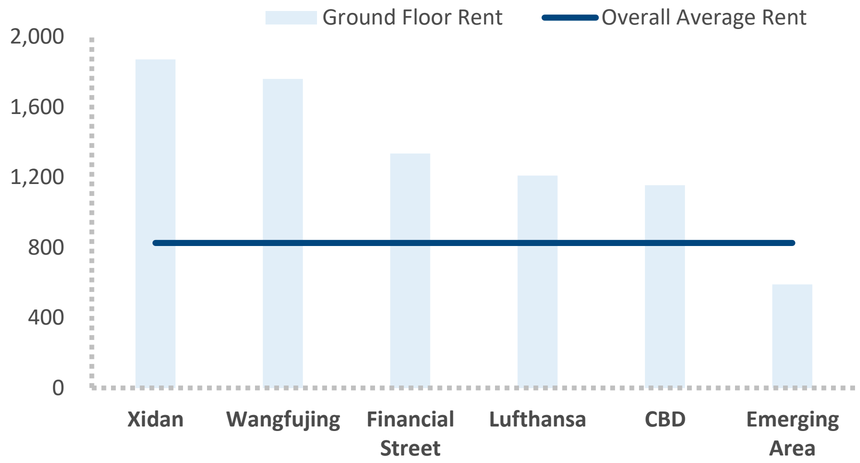
With fierce market competition comes an active adjustment of the tenant mix. In Q4 2018, the average ground floor fixed rent in Beijing's mid to high-end shopping malls remains steady at RMB826.8 (USD120.5) psm per month, despite the two new projects in emerging areas.

Vacancy rate, 2017-2023F (percentage)



Source: Colliers International

Rent by submarket (RMB psm per month)



Source: Colliers International

Two en bloc transactions were disclosed

Qianhai Kaiyuan has agreed to buy a portfolio of three shopping centres from Sino-Olcean for RMB3.2 billion (USD467 million). The portfolio includes three properties, namely Beijing Ocean We-Life Plaza, Beijing Ocean Landscape We-Life and Tianjin Ocean We-Life Plaza.[1]

Link REIT acquired Beijing Jingtong Roosevelt Plaza for RMB2.56 billion (USD369 million) from Singapore's ARA Asset Management. The mall will become Link's second Beijing acquired property and its fourth in mainland China.[2]

[1] Source: http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/1213/LTN20181213726.pdf
[2] Source: http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/1126/LTN20181126805.pdf

RETAIL FORECAST

Experiential malls should gain more success

Theme-branded shopping malls with a higher ratio of experiential retail should be more successful as consumers turn to experience-focused retail. Notably, the integration of offline experience and online ordering ought to become a more widespread strategy, expanding to all different categories with the retail sector. The redesign of interior space to set up themed space is likely to increase a mall's attractiveness and hence foot traffic. We expect mixed-sector stores, like bookstores which include a cafe, to see further growth in 2019. Meanwhile, we expect sectors to be increasingly narrowly defined, the expansion of Chinese style crawfish restaurants being an example of consumers' higher expectations being discovered and developed.

Suburban future supply releases potential demand

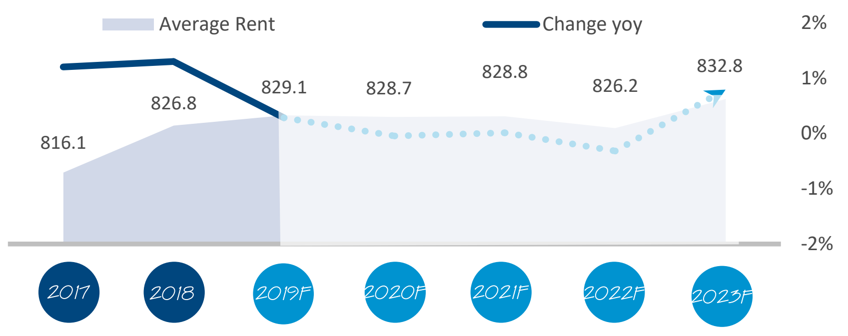
In 2019, we expect a peak in new supply of about 500,000 sq metres (5.38 million sq feet), with a quarter of the supply scheduled to be in prime submarkets. However, this should only raise the overall vacancy rate by 0.8 pps yoy to 2.9% due to stabilising demand. Meanwhile, overall rent should remain stable, with prices likely to see a 0.3% yoy gain.

Major new leases and openings Q4 2018

Property	Brand	TRADE
Sanlitun Taikooli	Canada Goose	Fashion
Sanlitun Taikooli	COS	Fashion
Joy City-Chaoyang	DOCR (13 brands including Xiaosong Island, Readway, SUPER MONKEY, Tomacado, Seesaw Coffee, and so on)	Mix-sector
Solana Lifestyle Shopping Park	drom Galaxy	Lifestyle
Yintai in01	Mr.Fish	F&B
The Malls at Oriental Plaza	Colorlab by Watsons	Cosmetics

Source: Colliers International

Average rent & change yoy, 2017-2023F (RMB psm per month)



Source: Colliers International

We predict a decrease of new supply in 2020 and 2021, as the newly announced city government policy forbids new retail development in central Beijing unless approved, indicating the majority of future new supply will be in suburban places or emerging areas. Therefore, supply in prime areas is gradually reaching saturation, a situation which should further push up rents in central Beijing. However, by 2021, we predict overall rents to level off or drop moderately because of the below-average rents of new supply in the suburbs. In 2022, supply should reach a small peak within the next five years, which will probably push rents downward. In 2023, we expect a drop in vacancy rate and a rebound in rent, as supply should see a significant decline from the previous year. Notably, more than a third of the new supply in 2020-2023 is proposed in Tongzhou area, Beijing's sub-centre. Given the limited existing retail supply in this area, the potential demand brought by the relocation of the municipal government, an expected increase of residents and industries, and the continued buildout of transportation infrastructure, should all contribute to the success of retail malls in Tongzhou.

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