

Nissa Deng
Analyst | Research | North China
+86 10 8518 1633
Nissa.Deng@colliers.com

NEW RETAIL ERA SHAPES CHANGING F&B HABITS

The rising new style tea drinks, coffee and fast food market

Summary & Recommendations

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.

2018

INVESTMENT



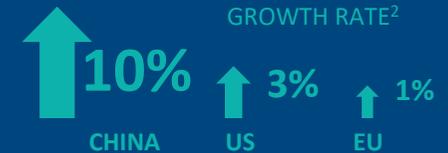
95%

PROPORTION OF NEW EQUITY INVESTMENT IN CHINESE F&B SECTOR TARGETED AT NEW STYLE TEA DRINKS, COFFEE AND FAST FOOD BRANDS¹



COFFEE MARKET

2018 COFFEE CONSUMPTION GROWTH RATE²

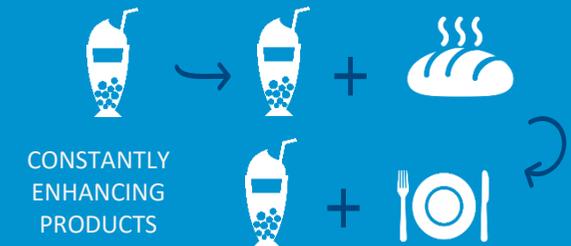


NEW STYLE TEA DRINKS

FEMALE CONSUMER



MALE CONSUMER³



NEW STYLE CHINESE FAST FOOD

- Stylishness and individualisation
- Shorter menus with single-theme products
- Healthy ingredients and cooking styles



FEWER BUT MORE EXQUISITE OPTIONS COMPARED TO USUAL EXTENSIVE MENU

RESTAURANT PREFERENCE

95%

WILL PATRONISE A RESTAURANT SIMPLY FOR A DISH OR A FLAVOUR³

¹Source: winshang <http://down.winshang.com/ghshow-3183.html>. The figure only refers to F&B brands that have outlets in shopping malls.

²Source: United States Department of Agriculture

³Source: *China F&B Report 2018* by Meituan Dianping

Note: USD1 to RMB6.73 as of March 29, 2019.

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 2018¹. 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.

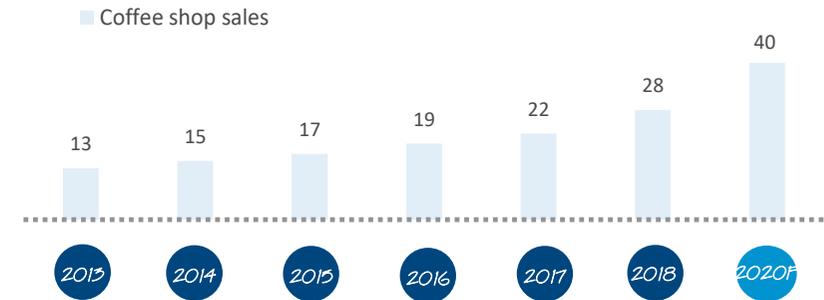
In 2018, China's coffee consumption grew 10% yoy, outpacing both the US and Europe². However, we estimate that China's annual per capita consumption of coffee is about five cups, significantly lower than the 400 cups in the US², and highlighting the growth potential for coffee in China. In addition, 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.

Major fast food/leisure dining sub-brands opened in 2018



Source: Colliers International

China coffee shop sales and forecast (RMB billion)



Source: Forward Industry Research (前瞻产业研究院)

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 (霸王牛肉粉) 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.

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.

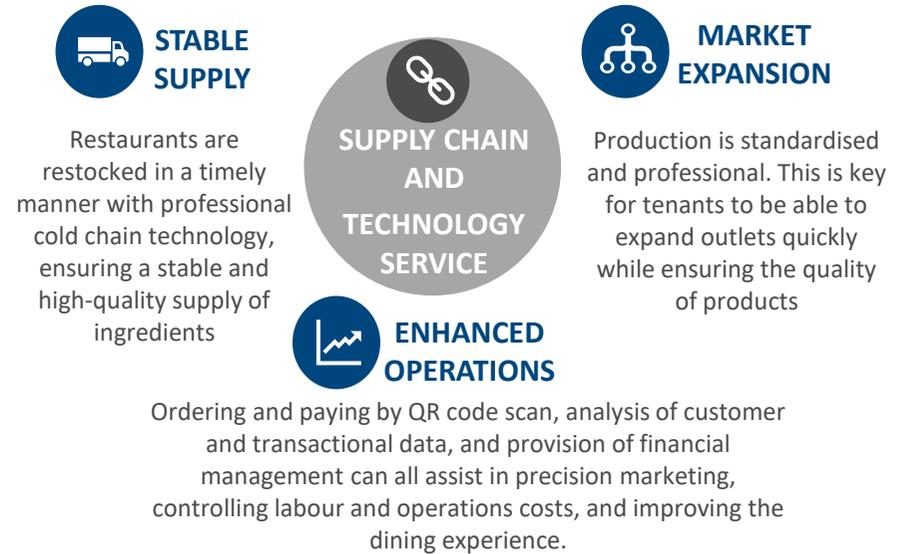
Leisure dining restaurants help bring foot traffic for shopping malls

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

Source: Colliers International

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:



Major F&B investments by sub-sectors 2018

Sub-sector	Brand	Investment round	Investment amount (RMB)	Month
Coffee & tea drinks	HEYTEA	B	400 million	April
	THE ALLEY	A	20 million	June
	Coffee Box	B+	158 million	March
	Luckin Coffee	A&B	2,685 million	June and Dec.
Fast food	LELECHA	Pre-A	>100 million	November
	KAO	B	45 million	June
	Qing-Feng Steamed Dumpling Shop	Strategic investment	92.1 million	August
Bakeries	Bliss Cake	B	400 million	July
Snacks	Hot&Hot	B	160 million	January

Source: Colliers International

Primary Authors:

Nissa Deng

Analyst | Research | North China
+86 10 8518 1633

Nissa.Deng@colliers.com

Contributors:

Emily Cao

Head | Research | North China
+86 10 8518 1633

Emily.Cao@colliers.com

For further information, please contact:

Tammy Tang

Managing Director | China
+86 21 6141 3688

Tammy.Tang@colliers.com

Charles Yan

Managing Director | North China
+86 10 8518 1593

Charles.Yan@colliers.com

Linda Song

Director | Occupier Service Landlord
Representative and Retail Service | North China
+86 10 8518 1633

Linda.Song@colliers.com

Andrew Haskins

Executive Director | Research | Asia
+852 2822 0511

Andrew.Haskins@colliers.com

Dave Chiou

Senior Director | Research | China
+86 21 6141 3590

Dave.Chiou@colliers.com

About Colliers International Group Inc.

[Colliers International](#) (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning more than 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were \$2.8 billion (\$3.3 billion including affiliates), with more than \$26 billion of assets under management.

For the latest news from Colliers, visit our [website](#) or follow us on   

Copyright © 2019 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

