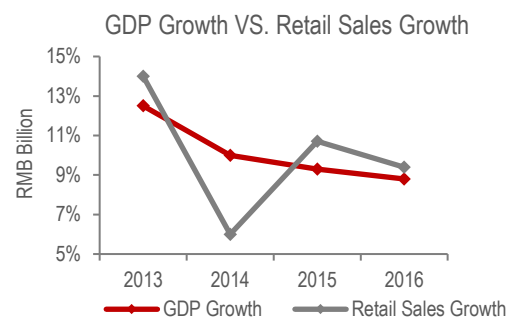
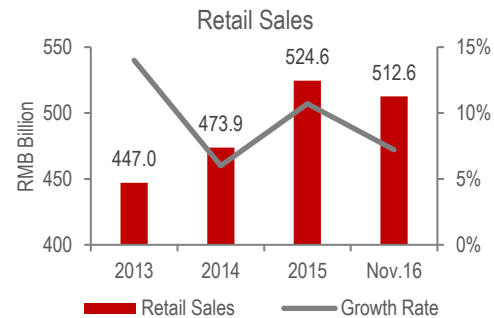


Tianjin retail market 2016 review

Is brick and mortar retail on the way out?

Tianjin's economic growth rate slowed in 2016, to 8.8% compared to 9.3% in 2015, meaning the city's economy was still growing faster than the national average, even as the pace of growth decline slightly. Online retail sales, while also seeing their rate of growth slow from last year, were still recording rapid growth rates at over 50% on the first eleven months from the same time last year. Total retail sales similarly rose at a faster pace than the overall economy, increasing 9.4% annually, but again, not quite at the same pace as the previous year. Below are some market indicators, a summary of Tianjin's retail market in 2016, and JLL's forecast for the year of the chicken (2017).



Source: EIU and Tianjin Statistics Bureau



- Six new shopping malls entered the market in 2016, adding 480,000 sqm of space to central Tianjin's retail market. Leasing demand in the physical retail market remained robust despite rapid growth in e-commerce. Net-absorption outpaced supply during 2016, causing the vacancy rate to decline 2.2 percentage points to 14.8%.
- Tianjin's retail landscape continued expanding as several new projects completed in decentralized areas. Of the six new projects, three malls – Metropolitan Plaza, M Plaza, and Heping Joy City completed in core retail areas; the other three – Delight City, InCity, and SM City Tianjin Phase I completed in non-core, suburban areas, positioned as community malls to serve the surrounding communities.
- Most of the community malls were opened to address the lack of high quality retail space in these large residential catchment areas, especially in the western part of Nankai district and the airport area. Limited competition in these areas has resulted in

projects achieving higher commitment rates than their central peers, like Metropolitan Plaza Tianjin, who opened with only 50% of space leased. Community malls also enjoyed higher visitor traffic and even higher sales despite being located far from the city centre, SM City Phase I being an example. Bravo Supermarket, an anchor tenant in SM City achieved over RMB 1 million in sales in its first day of opening, the highest daily sales total ever recorded for a Bravo Supermarket in China.

- Department stores made adjustments to stay competitive and there were no department stores closed after the market saw five closures in early 2015.

Most surviving department stores became aware of the competitive environment and made positive adjustments. Robbinz Department Store replaced its basement hypermarket with several F&B brands. Youyi Gallery, previously a mid to high-end project, leased 2,000 sqm UR Work, a co-working office brand, in 2016, repurposing retail space for office-usage.

Several department stores that closed in recent years, remained empty, becoming “ghost malls” whose future is clouded with uncertainty. However, one notable opening – Tianjin Heping Joy City, marked the first successful conversion of a former department store (formerly La Vita) into a shopping mall, providing a good example to landlords of empty department stores. It is also worth mentioning that the new mall is Joy City's first asset light retail project in Tianjin, meaning Joy City only acts as the operator – responsible for branding, leasing, and retail strategy – rather than the owner of the building where the mall is located.



**La Vita Department Store left in May 2015; Heping Joy City replaced it in Dec. 2016*

- Tenant mixes across the retail landscape were adjusted to meet changing consumer preferences. One trend in 2016 was that stylish, elaborately decorated restaurants and cafes started to appear in shopping malls. This phenomenon was found in other sectors as well, like bookstores, and in designated areas indoors and outdoors with unique themes. In the F&B sector, decoration and design mattered just as much as the food as “instagrammable” restaurants were welcomed by young consumers. Some examples include Tiantuyan, a Japanese-style dessert shop and a popular bakery, With Wheat.



**Well-decorated F&B store; themed shopping blocks; superior design of public space (Heping Joy City)*

- Several store categories expanded quickly in 2016, including:
 - Sportswear and domestic fast fashion brands. Mjstyle and Urban Revivo (UR) aggressively expanded in both core retail submarkets and in community malls. For example, UR opened new stores in Metropolitan Plaza Tianjin on Nanjing Road, Capital Mall by river, and Incity in Meijiang Area.
 - Educational centres also expanded at fast pace – a phenomenon perhaps witnessed only in China. This trend was especially evident in community malls, where educational centres offered language and music lessons to students of all ages. This tenant type became so common in some community malls that they started to resemble schools.
 - New technologies were embraced by storekeepers and consumers. For example, online and mobile payments become increasingly common, with most retailers now accepting WeChat Wallet or Alipay to encourage people to pay with less hesitation and provide consumers with online marketing. More technology-experience stores took up space in shopping malls, including Xiaomi, which opened an experience store in Riverside 66. Also, Huawei opened several stores in shopping malls during the year.

Looking forward in 2017, we expect another five shopping malls are going to enter the market. Two will be located in core retail areas and another three are expected to open in non-core, decentralized areas and respectively become community retail centres. Leasing demand will maintain positive momentum and continue to be supported by growth in consumer purchasing power and shoppers' increasing awareness of healthy living, which will translate to demand for healthy F&B brands, sports retailers, and fitness centres.

We also forecast that brick and mortar retail projects will begin to introduce online-to-offline retail formats to offset the challenge from online retail and capitalize on the growth of online retail. For example, Uniqlo, the fast-fashion brand, has tried the “click and collect” model in the US and UK for years and began doing the same thing in China on the “11-11” consumer holiday last year. The model should be

embraced gradually, ultimately benefitting footfall and retail sales of brick and mortar stores.

So in 2017, as the economy and retail sales continue to grow in Tianjin, shoppers will find new options in terms of new locations, both urban and suburban and expect fierce competition between retailer operators to drive innovation in Tianjin's retail space.

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