

Interesting retail changes and how they will affect the retail market

The modern retail market has been developing in Tianjin for more than 16 years, since the first typical shopping mall, The Exchange Mall, opened on Nanjing Road. The first supply peak appeared during 2011-2012, when Joy City, Galaxy International Shopping Center, iShine City and Aqua City completed in different submarkets in central Tianjin and increased the retail landscape in the city. For the first time, total stock of shopping malls surpassed the stock of department stores, and Tianjin has been dominated by the shopping mall format ever since.

The second supply peak occurred in 2015, but this time major new malls were located in emerging submarkets, such as Riverview Place Tianjin and Aegean Shopping Mall both in Hedong District. In addition, the coverage of these shopping malls was limited to the surrounding neighbourhood instead of the whole city. After the entry of this large supply pipeline, new openings are occurring at a slower pace. Regional competition and growing online shopping are two of the main reasons for this slower pace.

Malls opening in 2017

Opening Date	Project Name	District	GFA (sqm)
Quarter 1, 2017	Global Mall Tianjin	Xiqing	90,000
Quarter 2, 2017	TeeMall	Heping	190,000
Quarter 4, 2017	Luneng CC Plaza	Nankai	60,000
Quarter 4, 2017	Songjiang Landmark Plaza	Nankai	26,000

Supply pipeline in 2017, Source: JLL Research

During our site visit to track market updates among some 50 retail projects, we found several interesting market trends.

The fast fashion pattern changed

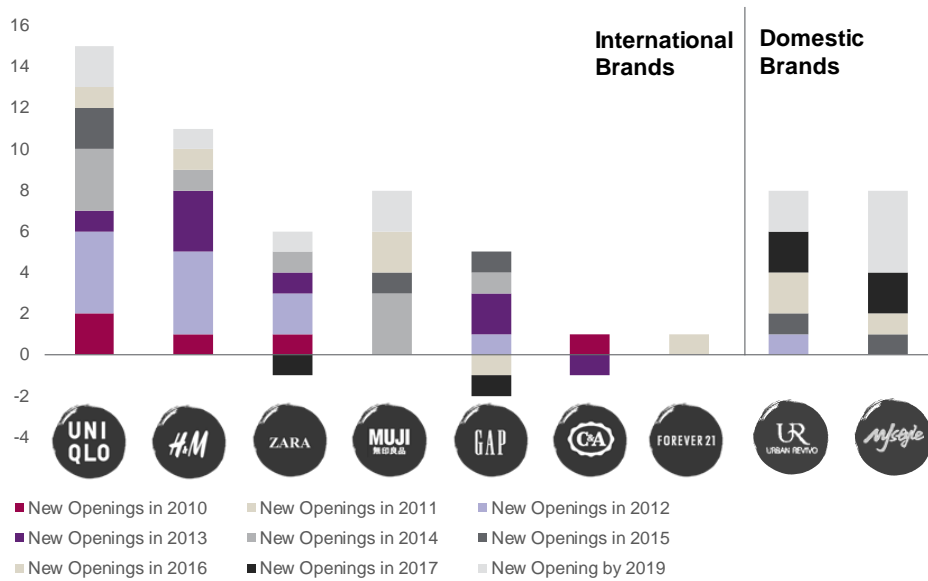
International brands, such as H&M, slowed their strategy of expansion while domestic fast fashion brands started to grow rapidly.

The main international fast fashion retailers came to Tianjin from 2008 and chose the hottest retail areas (Nanjing Road and Binjiang Avenue). Their trendy designs and acceptable prices helped them become the most popular brands, especially for young people. Retail developers introduced such brands as the main way to attract foot traffic and improve the positioning of their entire project. Almost all shopping malls which opened during 2012-2014 have at least one international fast fashion store.

Brand Name	Entered Tianjin	Location
Zara	2008	Nanjing Road
Uniqlo	2009	Nanjing Road
H&M	2010	Binjiang Avenue

Source: JLL Research

During about an eight-year development period, most international fast fashion retailers performed well while others, such as Gap and C&A, closed stores and even left Tianjin. The designs did not fit local tastes well may be the reason why they did not perform well. However, the relatively low spending power and fewer white-collar workers were also facts that stopped the retailers' development.



Tianjin main fast fashion brands, Source: retailers' official website, JLL Research

However, new projects continued to enter the market and when developers found they could not attract international fast fashion brands, they started to consider substituting domestic fast fashion, especially for large-sized malls. Domestic brands took the chance and started to expand. For example, Gap closed one store in Riverside 66 in late 2016 that will be replaced by Chinese fast fashion brand MjStyle soon. Therefore, if you walk around the malls that opened after 2015, you probably could find several local fast fashion brands instead of H&M or Zara.

For shoppers, the expansion of Chinese fast fashion may be a good thing because there could be more choice of trendy clothes with even lower prices.

Convenience stores have started booming recently

Since 2015, Tianjin's GDP has been dominated by the service industry; more companies have appeared, pushing up the population of white-collar workers. Strong customer demand supported the rapid expansion of convenience stores. The 7-11 chain is the first and the only international convenience store chain to have entered Tianjin.

Convenience stores are widely welcomed by students and office workers but not by some retailers. Considering the products convenience stores provide, they may hurt their competitors from different categories, such as cafés (Starbucks, Costa), fast food chains (KFC, McDonald's), cigarette stores, Watson's, and other mom and pop convenience stores.

In addition to the wide range of products they provide, some other features make them even more competitive.

1. Handy locations: the locations for convenience stores are chosen cautiously and they can usually be found at the entrance of shopping malls and near schools or hospitals.
2. They only provide items with high purchase rates, which help them to achieve high conversion rates.
3. Better services: they are not checkout-free stores such as Amazon Go, but a customer does not need to talk during the entire shopping process. There are no promotions or advertisements from cashiers, unlike at similar stores such as Watsons.

At present, Tianjin has 83 7-11 outlets in total and it seems to have a large expansion space compared with the 198 stores and several other chains in Beijing. However, under pressure from convenience stores, several hypermarket retailers are trying to compete by opening smaller grocery stores near communities. For example, Tesco Express is a new grocery chain with a standard space of about 300 sqm. The grocery stores provide daily necessities, ready to eat,

cigarettes as well as fruit and vegetables. Older people may find it easier to adapt to Tesco Express and it may become the new competitor to convenience stores, especially when convenience stores tend to expand to communities.

Kiosk retail is welcomed by shopping mall operators

Many game machines, mini KTVs and vending machines have started to appear in most shopping malls this year. These small, open-fronted cubicles are defined as kiosk stores.



Source: JLL Research

The emerging kiosk retailers are mostly franchisee operated, this sector is likely to expand as a wide range of investors could afford to enter this market. In addition, kiosk retailers enjoy flexibility in terms of location selection because only a small area (less than 5 sqm for each machine) is needed. And last, shopping mall landlords welcome them because they can be put in the corner of malls or near elevator banks, which means landlords can get extra rental income and foot traffic from these public spaces.

The game machines and mini KTVs are located near cinemas or restaurants. When shoppers are waiting for the movie to begin in half an hour or when they are waiting for table in a restaurant, they could probably go to a kiosk store, spend RMB 30 and have fun. From our observation, families with kids and young students welcome crane machines, while mini KTVs mostly attract young couples or young ladies.

Future:

The retail market is always challenging. Retailers' strategy and customers' needs and preferences are changing frequently and new projects keep entering the market, which continuously increases the competition. However, shoppers will benefit from new creative retail concepts and new retail stores catering to their needs and providing more options.

Looking forward, more mixed-use projects are expected to enter Tianjin's non-core area. Not only in Hongqiao, but formerly less developed areas like Hedong will welcome CITIC Real Estate's City Plaza, including several residential high-rises, a shopping mall, a hotel, and office towers within next five years, and New Badali in Hexi will also see several residential projects, three shopping malls, and multiple office towers developed by multiple domestic developers. Limited future land supply in traditional business area like Heping, will force developers looking to enter the market in non-core area. More people will benefit from these mixed-use projects in non-core areas and will easily find an attractive destination to eat, drink, shop and spend the weekend with their friends and families.



Lesley Chai
Assistant Manager, Research
Tianjin, JLL
+22 8319 2233
lesley.chai@ap.jll.com



Michael Hart
Managing Director
Tianjin, JLL
+22 8319 2233
michael.hart@ap.jll.com