# Retail


M+ Shopping Mall

# More malls to come

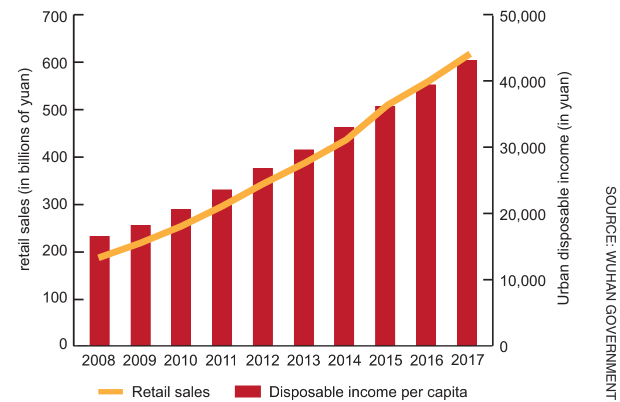
Hanzheng Street, which runs for miles along the northern bank of the Han River, is widely believed to be Wuhan's oldest marketplace. During the Qing Dynasty it was where people shopped for food, satin, metal, paint, candles and paper. Some literature indicates it came into being after the Han River changed its course and cut through Hangyang, suggesting it is the settlement that gave rise to Hankou. The bustling street remained a commercial hub into modern times, yet the goods traded there were often criticised for being shoddy and bogus. In 2011 the government decided to give the area a facelift. As a result over 11,000 of its occupants were relocated to a wholesale shopping centre called North Hankou International Trade Centre, operated by the Zall Group.

**The supply of prime shopping centres grew fivefold in the past decade to 6.58 million square metres**

The demolition of Hanzheng Street not only marks how heritage is a lesser priority in Wuhan than new development, but also demonstrates the changing behaviour of the city's consumers. Instead of buying goods at random clusters of mom-and-pop retailers, shoppers are increasingly hunting for branded items in upscale or stylish malls.

The trend has driven a fivefold increase in the supply of prime shopping centres in Wuhan in the past decade, totalling 6.58 million square metres by the first half of 2018, according to real estate services company Jones Lang LaSalle (JLL). This huge increase was not only thanks to the ambitious plans of local developers. In fact, seven out of the city's top 10 mall developers – measured by the gross floor area they have built as of 2018 – were from outside

## Wuhan's retail sales and urban disposable income per capita




Wushang Plaza: Wuhan's oldest mall

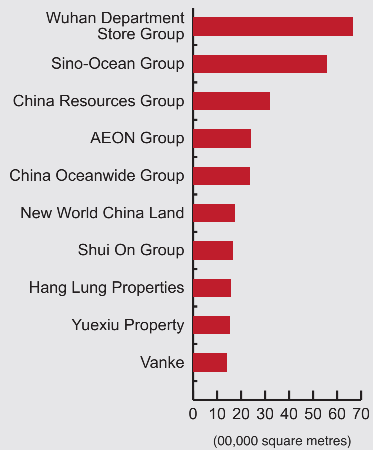
## Major developers

Based on existing projects' gross floor area


Top 10 developers built 62.2% of existing malls

## Major developers

Based on future projects' gross floor area




Top 10 developers supply 62.8% of future projects

SOURCE: JLL

Hubei province. Wanda, AEON and the Inter IKEA Centre Group were some the major players along with Hong Kong's New World Development. The league table would be even more skewed to outsiders if future projects were also taken into account.

What these developers recognised was the robust growth in Wuhan's household purchasing power. In the last decade Wuhan's urban dwellers have seen their disposable income rise at a compound annual rate of 10%, while retail sales have risen still faster at 12.9%, notwithstanding President Xi Jinping's anti-extravagance campaign and a slowing macro backdrop.

In 2017 the city's overall consumption spend hit Rmb619.6 billion, up 10.4% from a year earlier. Urbanites' average annual disposable income, meanwhile, climbed 9.2% to Rmb43,405.

One company that has been benefiting a lot from the the uptrend is the Wuhan Department Store Group. Also known as Wushang, the state-owned landlord-cum-supermarket chain operator has seen its net profits log double-digit growth every year since 2005. In 2017 its bottom line reached Rmb1.2 billion as revenue topped Rmb18.1 billion, growing 25.2% and 2.4% respectively. Seen as the bellwether of the retail industry in Hubei province, the Shenzhen-listed company owns the largest retail space in Wuhan and enjoys the privilege of hosting the most high-end brands such as Louis Vuitton, Hermès, and Cartier.

Its flagship Wuhan Mo'er City – comprising the Wuhan International Plaza, the Wushang Plaza and the World Trade Plaza along Jiefang Avenue – is the most established shopping complex in Wuhan and therefore a top traffic generator for brands with shops there. The Lancôme in Wushang, for example, turned over Rmb80 million in 2017, and that outlet was ranked the country's largest by sales for any department store concession, according to Shanghai Securities News. Due to its distinct advantage in attracting traffic, developers such as Hong Kong-based Hang Lung, New World's K11, and Guangzhou's Yuexiu are all erecting mega malls within walking distance of Mo'er City.

Meanwhile, Wushang is building another landmark in the central business district in Wuchang called Wushang Dream Times Plaza. Focusing less on conventional goods, the Rmb12 billion project (with a construction area of 816,700 square metres) will feature multiple theme parks such as Legoland, Freezing Island, an aquarium, a technology museum, as well as the largest indoor ski facility in central China. The design is adapting to customers that are more attuned to shopping online, and therefore tend to look for experiences offline.

E-commerce sales in Wuhan jumped 41.1% on the year to Rmb51.2 billion in 2017, representing 12.9% of the city's

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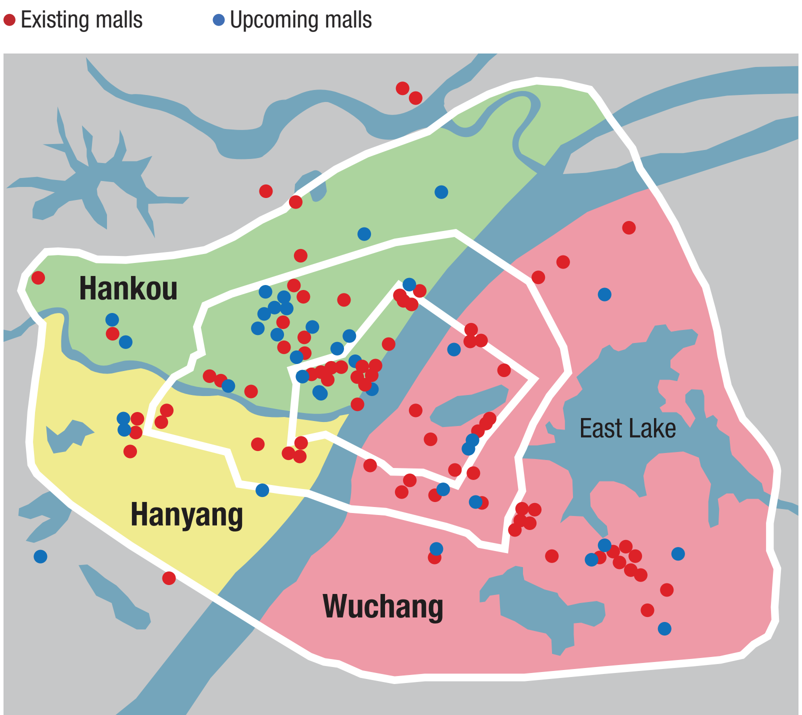
## Chinese cities "new retail" index

| Name | Total (out of 100) | Consumer participation rate | Government support | Presence of new-retail companies | Business development |
|---|---|---|---|---|---|
| Shanghai | 65.59 | 15.59 | 21 | 21.69 | 7.31 |
| Beijing | 61.93 | 16.12 | 18.5 | 19.43 | 7.88 |
| Shenzhen | 53.45 | 15.45 | 13.5 | 17.95 | 6.55 |
| Hangzhou | 49.36 | 11.56 | 15.5 | 16.72 | 5.58 |
| Guangzhou | 45.2 | 15.15 | 10.5 | 13.59 | 5.96 |
| Wuhan | 43.31 | 15.73 | 11.5 | 10.5 | 5.58 |
| Chengdu | 40.42 | 10.71 | 9.5 | 14.83 | 5.38 |
| Xi'an | 40.02 | 11.33 | 15.5 | 8 | 5.19 |
| Chongqing | 38.01 | 7.88 | 14.5 | 10.44 | 5.19 |
| Fuzhou | 35.12 | 8.54 | 10 | 11.2 | 5.38 |

## Geographical distribution of Wuhan's malls




SOURCE: JLL

total retail sales. Due to the sheer number of schools and students it hosts, Wuhan has a relatively youthful demographic. That translates to a bigger cohort of consumers that are tech-savvy and frequent spenders.

A survey by Guangzhou-based newspaper Southern Metropolis Daily in May 2018 found that Wuhan is China's sixth most "new-retail" friendly city. ("New-retail" is generally understood as the seamless integration of online and offline elements for a better shopping experience.) Of four metrics, Wuhan achieved particularly high marks in the area of customer participation rate, second only to Beijing. Aside from promising growth in household disposable income, Wuhan did well because of an 89% mobile payment penetration rate and a sizable population aged between 15 and 64 (i.e. over 80% of its inhabitants, which is the highest among all Chinese cities.)

Dragging Wuhan lower on the league table is the relatively weak presence of "new-retail" companies. But that is set to change as more such companies shift their focus. Alibaba's Hema Supermarkets, whose operation relies heavily on mobile technology, is planning to open 50 outlets in Wuhan over the next three years. The first started operating in Wuchang's Fanyuehui mall cluster in April 2018. Local brands such as Cai Linji, famous for making *reganmian* (see page 36 for more) and Bestore, a snack retailer, are also jumping on the bandwagon to invest more in technology and "new retail". ■

# Q&A with JLL's Wuhan boss: is oversupply an issue?

Sinopolis sits down with Rayman Tseng, managing director of real estate services provider Jones Lang LaSalle (JLL)'s Wuhan branch, to learn more about the commercial property sector in Wuhan

**Are rental rates rising at Wuhan's malls?**
The average net rental rates across the city have grown 54.5% since 2005, reaching Rmb442 per square metre per month as of 2018's second quarter. Yet it has kind of plateaued since 2013 when supply became more abundant. All in all, vigorous business activities and operators' tendency to pre-lease their properties before opening it to the public have helped maintain their vacancy rates at below 10% over the last decade. It stood at 8% as of the second quarter in 2018.

**Who is renting?**
Eateries, fast fashion, entertainment and kids-related categories are fast taking up space in malls, followed by affordable luxury brands, cosmetics, accessories and sporting goods providers. Luxury retailers, department stores and electronics, however, have significantly slowed their

expansion. The trend is in line with other major cities in China, where conspicuous consumption is discouraged and electronic goods are more often traded online.

**Where are the new malls?**

Hankou has been traditionally the hub for business activity; it has therefore remained the top destination for developers looking to build new malls.

By gross floor area Hankou houses 46.3% of the shopping space in Wuhan, while Wuchang and Hanyang host 38.8% and 15% respectively. We expect the trend to persist over the next three years while supply will be greatly increased from the current 6.6 million square metres across the town.

That said, there are signs that malls in Wuhan are decentralising. One factor is the relentless buildout of the underground network, which has allowed numerous residential precincts to sprout. That often comes with demand for nearby shopping facilities. The Panlongcheng D-Mall, for instance, was unveiled in December 2017 to accommodate a new community in the Huangpi district. Located outside of the third ring road in the north, it's a 30-minute drive away from the city centre. Yet it has attracted the Metro Group, a German cash-and-carry chain, to open a branch there. It has put together a wide array of midmarket restaurants and child-related services providers.

**What about the office market?**

The total supply of prime offices will reach 7.57 million square metres by 2020, meaning an increase of 56.7% from now. Rental rates are therefore expected to trend downward, with those for Grade-B buildings dropping faster. They are now averaging at Rmb74 per square metre per month [editor's note: for comparison Beijing would be around Rmb220 per square metre per month], while those for Grade-A buildings stand at Rmb106. Location-wise, we will see more offices move to Jiang'an, Qiaokou, and Hongshan.

Much of the demand since 2017 has been coming from advanced technology companies, followed by construction firms and financial services providers. Nearly 92% of them are driven by the need to open new offices in Wuhan. As demand has yet to catch up with supply, the vacancy rates of Wuhan's offices, now standing at 37.4%, will likely keep rising.

But they will be reasonably absorbed, eventually, if the development in Chengdu is any indication. The capital of southwestern Sichuan province has seen its office vacancy rates decline from above 40% three to four years ago to the current 12% as its economy gained pace. Besides, the current supply in Wuhan only approximates to what a district in Shanghai needs. Wuhan's office market is promising in the long run if you believe in its economic potential.