POST COVID-19 – RECOVERY

Looking Beyond COVID-19: Consequential changes to expect for retail in China

March 2020

GREATER CHINA OCCUPIER RESEARCH

CONTENTS

1 EXECUTIVE SUMMARY

The COVID-19 outbreak has been an unprecedented event in China. Its consequences have been felt across geographies, the society, the economy and the property market in the country.

The COVID-19 outbreak is anticipated to influence China's real estate market on many levels and in this report, we draw attention to four retail feature points which real estate investors, developers and occupiers should be cognisant of in 2020 and beyond, and they are:

An omnichannel presence: A must-have item

In the short term, the drop in footfall traffic will dent the retail sales numbers in China, however, going forward in the mid- to long term, we do expect retail sales volume growth rates to return to pre-outbreak levels. What's more, we will see an acceleration and a deeper integration of offline/online omnichannel retail services in China, given the impact of the outbreak and the recognised importance of these platforms by retailers for driving retail product and service sales.

Digitisation/Data intelligence to develop further

Digitisation and data intelligence have become important tools in China's retail sector, but the COVID-19 outbreak has proved to a number of retailers that these tools can be further optimised. Ahead, through best-practice use of digitisation and data intelligence, we expect many retailers to place a greater emphasis on:

- Customer relationship management;
- In-depth data mining;
- Product personalisation, and;
- Intelligent supply chain management...

...so as to further improve the customer shopping experience and, ultimately, retail sales performance.

Marketing models to transform

Post COVID-19, we expect more retailers and shopping centres in China to change their existing marketing model and adapt it to utilise live online broadcast channels to not only market their products and services but to also improve the overall shopping experience for their customers.

Bricks-and-mortar retail cleaning, health and hygiene to be prioritised

Ahead, we expect shopping centres in China to prioritise, elevate, widen and deepen cleaning procedures to make sure centre premises are as clean and safe as they possibly can be. Health and hygiene-enhancing measures adopted and implemented by shopping centre property management teams in China in the future are likely to be many, including:

- A stepping up of related cleaning, health and safety training;
- Cleaning and cleaning checks to be more rigorous;

- HVAC systems, elevators, escalators, toilets, counter tops, common area seating and entrance/egress doors to be paid special cleaning attention, and;
- Hand sanitisers to be made available in all toilets and at all entrance/egress points.

By taking these actions and doing more, shopping centre property management teams in China will be in a better position to ensure that facility cleaning, health and hygiene levels are optimised. In turn, these measures will play an important role in enticing back regular customers to shopping centres in the country over the short term and attracting new customers over the mid- to long term, which will all bode well for retail sales and the net operating income of individual measure-adopting shopping centre properties.

2 INTRODUCTION

The COVID-19 outbreak has been an unprecedented event in China. Its impact has been felt across geographies, the society, the economy and the property market in the country. This report looks at retail real estate in China and picks up on four important feature points which retail occupiers, developers and investors should note and look out for in 2020 and beyond.

For each feature point, this report provides:

- A brief background;
- How the COVID-19 has impacted it, and;
- Finally, an indication of 'what's next?'

3 AN OMNICHANNEL PRESENCE: A MUST-HAVE ITEM

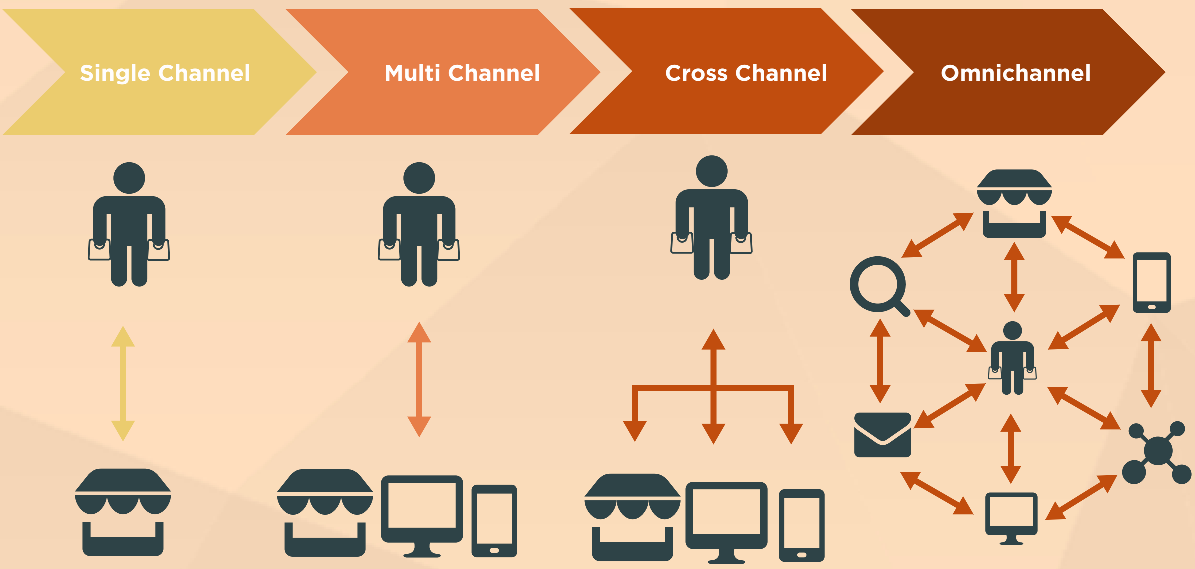
Background

Retailing in China has largely come a long way in the last five years in terms of operation development and particularly the adoption and integration of technology to drive sales. Technology has been used to good effect by a good number of retailers in the country to build out an online shopping platform and blend this into an omnichannel retail presence.

So, what is omnichannel retailing? Essentially, omnichannel retailing is a further development of multichannel retailing. The advent of digital technology, social media and mobile devices has resulted in a transformational change regarding the mode of operation for retailing. An omnichannel retailer does not only rely on the traditional physical bricks-and-mortar retail shop to drive retail sales but also utilises an online platform that combines its website, email offers, social media messaging and its online store to further

Figure 1:
Retailing: From single channel to omnichannel

Source: Medium, Cushman & Wakefield Research



drive customer purchases. The omnichannel model not only broadens the gamut of retail channels, but also heightens the customer shopping experience by enhancing the communication and interaction between the customer, the brand and the retailer (Figure 1).

Impact

During the COVID-19 outbreak and under quarantine conditions, consumers in China largely stayed at home. Consequently, footfall traffic to physical bricks-and-mortar shops in the country saw a drop over the last two months and this has dramatically affected physical bricks-and-mortar retail shop sales. What's more, following the outbreak, several well-known chain restaurants, gyms and cinemas suspended their operations and are now facing financial cash flow difficulties.

However, one silver lining is online shopping, which has a significant presence in China already (Figure 2).

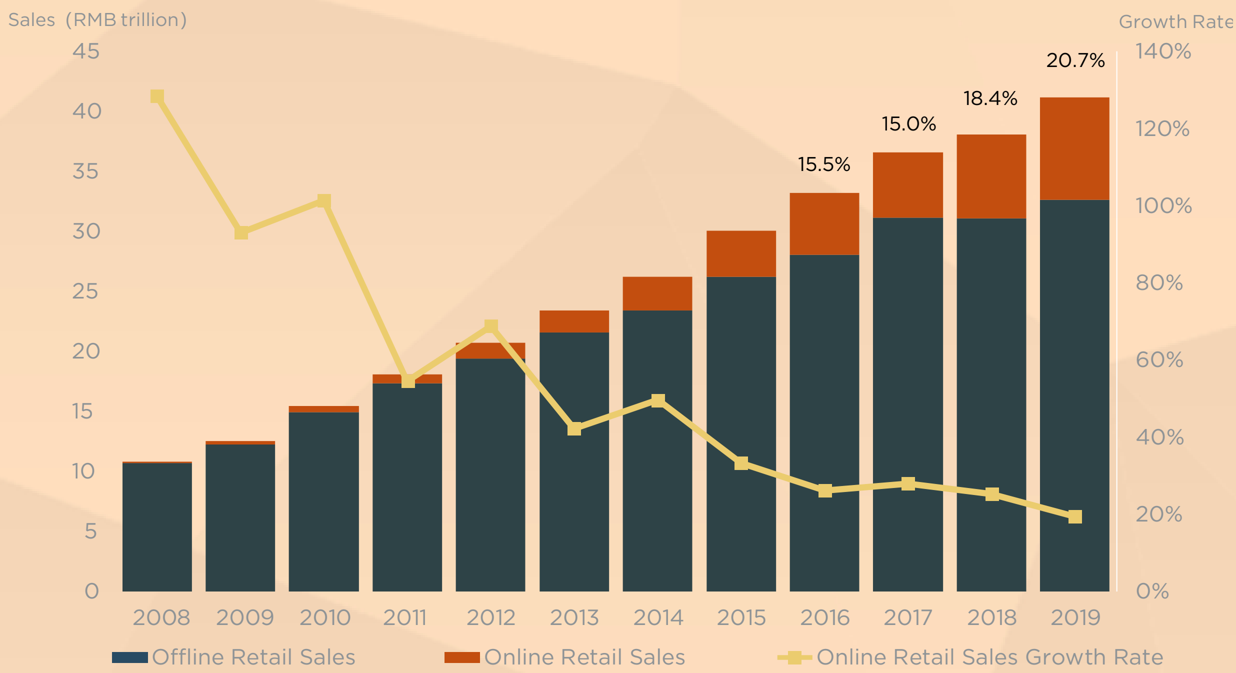
As people confined themselves to their homes during the height of the outbreak, they increasingly shopped online from home. Physical bricks-and-mortar shops with an omnichannel presence responded quickly:

- Watsons now offers a "one-hour delivery without contact" service nationwide, which encourages customers to purchase through mini-programmes or O2O platforms, such as Ele.me and Meituan;

- Sephora now provides disposable makeup testing tools in its shops and actively points customers to its official

Figure 2:
China offline/online retail sales volume trend (2008-2019)

Source: National Bureau of Statistics, Cushman & Wakefield Research



APP store online;

- McDonald’s, Xibei and other chain restaurants provide online ordering and “contactless delivery” services to ensure the health and safety of their customers, and;
- SuperMonkey, Shape, and other smart gyms offer fitness courses broadcast -ed live via TikTok and Kwai.

Thanks to high-speed internet access, O2O platforms and online services, during the height of the outbreak period, Chinese consumers were able to continue to shop, eat, learn and play at home.

What’s next?

In the short term, the drop in footfall traffic will dent the retail sales numbers in China, however, going forward in the mid- to long term, we do expect retail sales volume growth rates to return to pre-outbreak levels. What’s more, we will see an acceleration and a deeper integration of offline/online omnichannel retail services in China, given the impact of the outbreak and the recognised importance of these platforms by retailers for driving retail product and service sales.

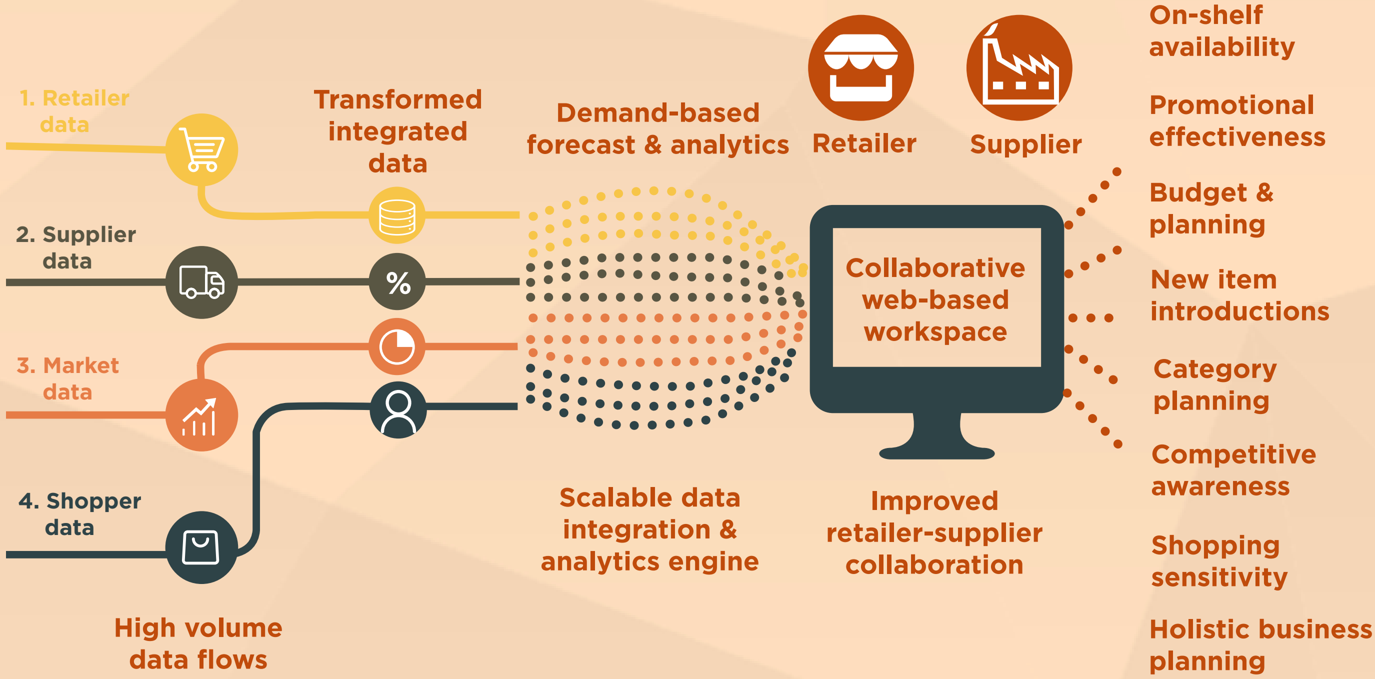
4 DIGITISATION/DATA INTELLIGENCE TO DEVELOP FURTHER

Background

For retailers in China, information has become a game-changer of late. By utilising customer-related digitisation and data intelligence to reveal insight, retail data analytics has allowed many retailers in the country the ability to act quicker upon the continually changing consumer preferences, habits and shopping trends. By embracing a digitalisation and data intelligence-first approach towards the understanding of their customers, many retailers in China have reaped solid dividends and pursued potential retail sales growth. What's more, retailers in the country are also utilising digitalisation and data intelligence to optimise product fabrication, augment supply chain efficiency and improve the customer shopping experience (Figure 3).

Figure 3:
Retail digitalisation and data intelligence utilisation

Source: SQream, Cushman & Wakefield Research



In 2016, the State Council in China issued the "Promoting the Innovation and Transformation of Bricks-and-Mortar Retail" notice and since the introduction of this communique, the technical transformation of retailing in China, including the use of digitalisation and data intelligence, has been fast-tracked. Retailers in the country which have quickly harnessed this form of 'new retail' have been able to gain a competitive advantage in areas, such as the customer shopping experience and product and/ or service, offering, delivery, sales and marketing (Figure 4).

Impact

The COVID-19 outbreak has heightened the use of digitalisation and data intelligence by retailers in China. For example, through the analysis of customer needs, via the information generated by Big Data during the height of the outbreak, retailers in the country, such as Carrefour, Hema, Suning, Wuhan Zhongbai, and other supermarkets and shopping malls, were able to rapidly re-gear their supply chains to stock and sell the types of goods their customers in China demanded, such as basic food and daily necessity items.

What's next?

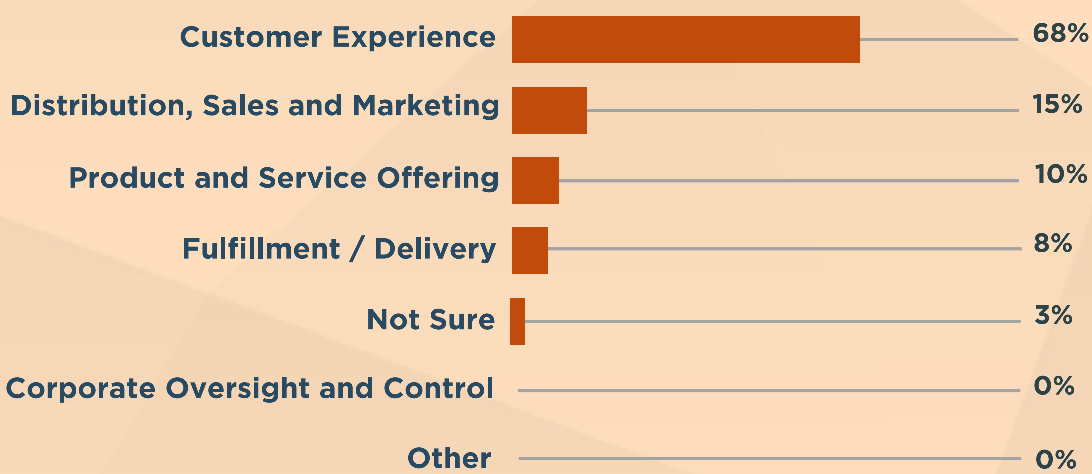
Digitisation and data intelligence have become important tools in China's retail sector, but the COVID-19 outbreak has proved to a number of retailers that these tools can be further optimised. Ahead, through best-practice use of digitisation and data intelligence, we expect many retailers to place a greater emphasis on:

- Customer relationship management;
- In-depth data mining;
- Product personalisation, and;
- Intelligent supply chain management...

...so as to further improve the customer shopping experience and, ultimately, retail sales performance.

Figure 4:
In what area will digital have the greatest impact on retail businesses

Source: 2017 CIO Agenda: A Retail Perspective, Cushman & Wakefield Research



5 MARKETING MODELS TO TRANSFORM

Background

Retail marketing is the method by which retailers stimulate understanding of and interest in their products and services in an effort to spawn sales from their regular and potential consumers. There are a variety of solutions, stratagems and approaches open to retailers to market their products and services (Figure 5).

Today, retailers in China are also using various forms of marketing to promote their products and services. What's more, the emergence of live broadcasting and short video product sales promotion by retailers have further enhanced retail marketing in the region by improving the shopping experience of consumers in China.

Figure 5:
Selected retail product and/or service marketing solutions

Source: Cybex Systems, Cushman & Wakefield Research

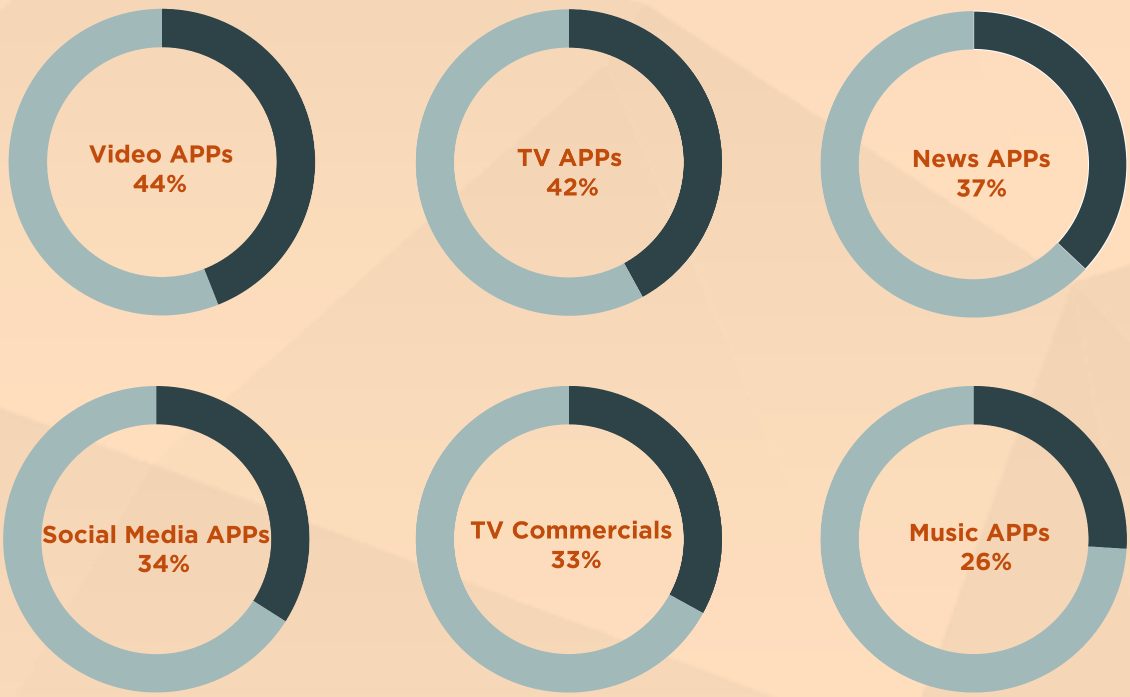
Impact

Affected by the COVID-19 outbreak, shopping centres and brands in China cancelled or postponed pop-up stores, themed events, art exhibitions, and other promotion activities to attract consumers. During the Spring Festival holiday this year, many people turned their attention to online TV commercials, online TV APPs, online video APPs, online news APPs, social media APPs and online music APPs (Figure 6).

The average daily use time for all users of TikTok and Kwai increased by nearly 100 million hours over the five days before the Spring Festival this year. The COVID-19 outbreak expanded further the application of live internet broadcasting and short videos, while people were confined to their homes in China. Live music performances, live clothing shows, live house sale viewings, etc., all saw online broadcast and viewing volume increases and this has not been lost on retailers in China. Several brands and shopping malls quickly pushed out short online videos to market and sell their products and services. For example, skin care brand, Lin Qing Xuan, temporarily closed 157 shops and only kept 170 of their remaining shops open in February. However, the company's sales improved 145% when compared to the same period in 2019, and much of this performance was down to marketing model changes involving live online broadcasts focused on Lin Qing Xuan's products and services.

Figure 6:
The top six online entertainment activities during the Spring Festival in China (2020)

Source: Kantar, Cushman & Wakefield Research



What's Next?

Post COVID-19, we expect more retailers and shopping centres in China to change their existing marketing model and adapt it to utilise live online broadcast channels to not only market their products and services but to also improve the overall shopping experience for their customers.

6 BRICKS-AND-MORTAR RETAIL CLEANING, HEALTH AND HYGIENE TO BE PRIORITISED

Background

Given the amount of shopping centre projects currently operating and expected to operate in the future in China, the level of competition out there to maintain and to improve physical bricks-and-mortar retail customer footfall traffic is and will be intense (Figure 7).

Naturally, shopping centre property management teams in China are acutely aware of the importance that footfall traffic attraction has to overall shopping centre business viability. They understand the importance of their role in helping to encourage customer footfall traffic by making sure the shopping centre facilities remain, at all times, as clean and as safe as possible for the frequenting customers.

Impact

With the COVID-19 outbreak leading to home confinement on a massive scale in China, daily passenger traffic volume, and in particular, customer footfall traffic volume to shopping centres around the country consequently took a huge dive (Figure 8).

As the outbreak intensity is now under control in China, more people are both allowed out of their homes and have the confidence to venture out on their own. Many are choosing to frequent shopping centres once again and thus customer footfall traffic to these facilities in the region is now on the up.

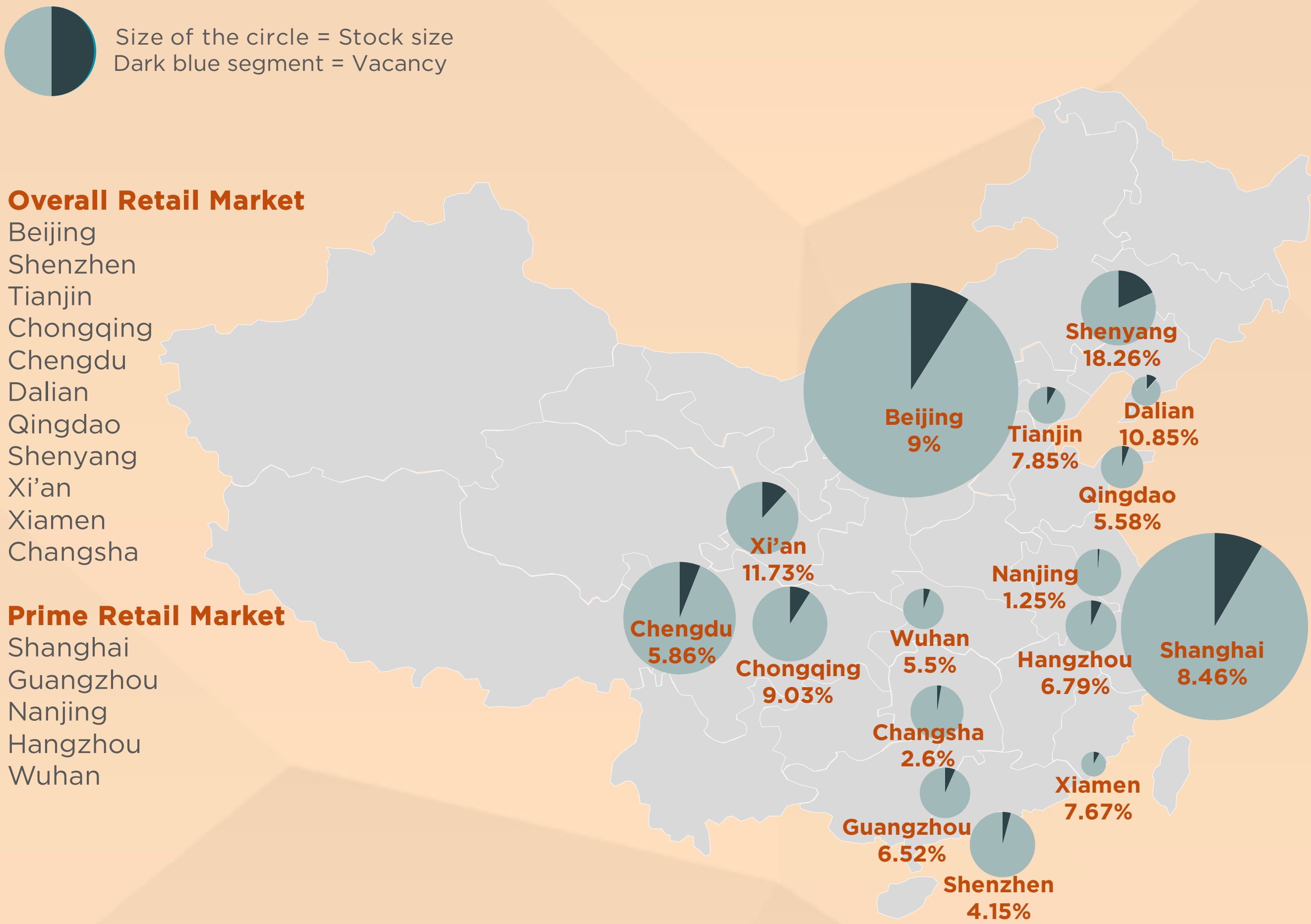
What's Next?

Ahead, we expect shopping centres in China to prioritise, elevate, widen and deepen cleaning procedures to make sure centre premises are as clean and safe as they possibly can be. Health and hygiene enhancing measures adopted and implemented by shopping centre property management teams in China in the future are likely to be many, including:

- A stepping up of related cleaning, health and safety training;
- Cleaning and cleaning checks to be more rigorous;
- HVAC systems, elevators, escalators, toilets, counter tops, common area seating and entrance/egress doors to be paid special cleaning attention, and;
- Hand sanitisers to be made available in all toilets and at all entrance/egress points.

Figure 7:
China shopping centre stock and vacancy (Q4 2019)

Source: Cushman & Wakefield Research

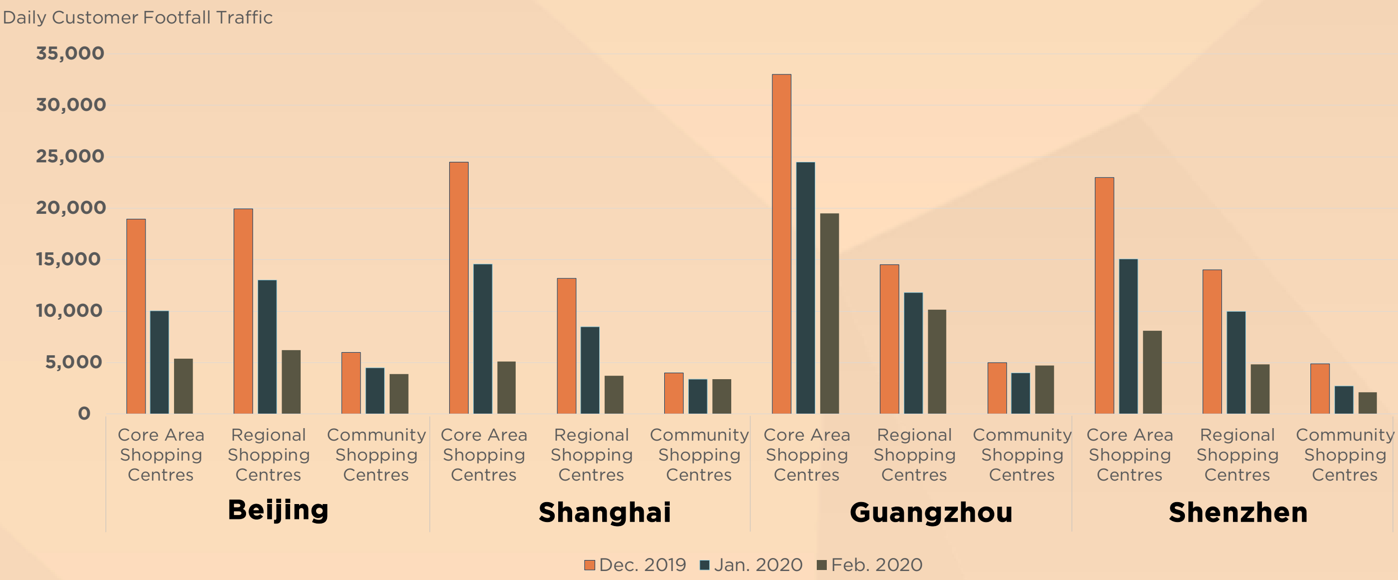


By taking these actions and doing more, shopping centre property management teams in China will be in a better position to ensure that facility cleaning, health and hygiene levels are optimised. In turn, these measures will play an important role in enticing back regular customers to shopping centres in the country over the short term and attracting new customers over the mid- to long term, which will all bode well for retail sales and the net operating income of individual measure-adopting shopping centre properties.

Figure 8:

Selected China first tier city shopping centres: Average daily customer footfall traffic (December 2019-February 2020)

Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research



7 KEY TAKEAWAYS

The COVID-19 outbreak has been an unprecedented episode in China. Its impact has been felt across geographies, the society, the economy and the property market in the country.

The COVID-19 outbreak is anticipated to influence China's real estate market on many levels. The retail sector in the country is one of those levels and the consequential changes to this sector will also be many, including:

An omnichannel presence will be a must-have item for retailers

Going forward, we will see an acceleration and a deeper integration of offline/online omnichannel retail services in China, given the impact of the outbreak and the recognised importance of these platforms by retailers in the region for driving retail product and service sales.

Digitisation/Data intelligence will be developed further by retailers

Ahead, through best-practice use of digitisation and data intelligence, we expect many retailers in China to further improve the customer shopping experience and, ultimately, retail sales performance.

Retailer marketing models will be transformed

Post COVID-19, we expect more retailers and shopping centres in China to change their existing marketing model and adapt it to utilise live online broadcast channels to not only market their products and services but to also improve the overall shopping experience for their customers.

Bricks-and-mortar retail cleaning, health and hygiene will be prioritised

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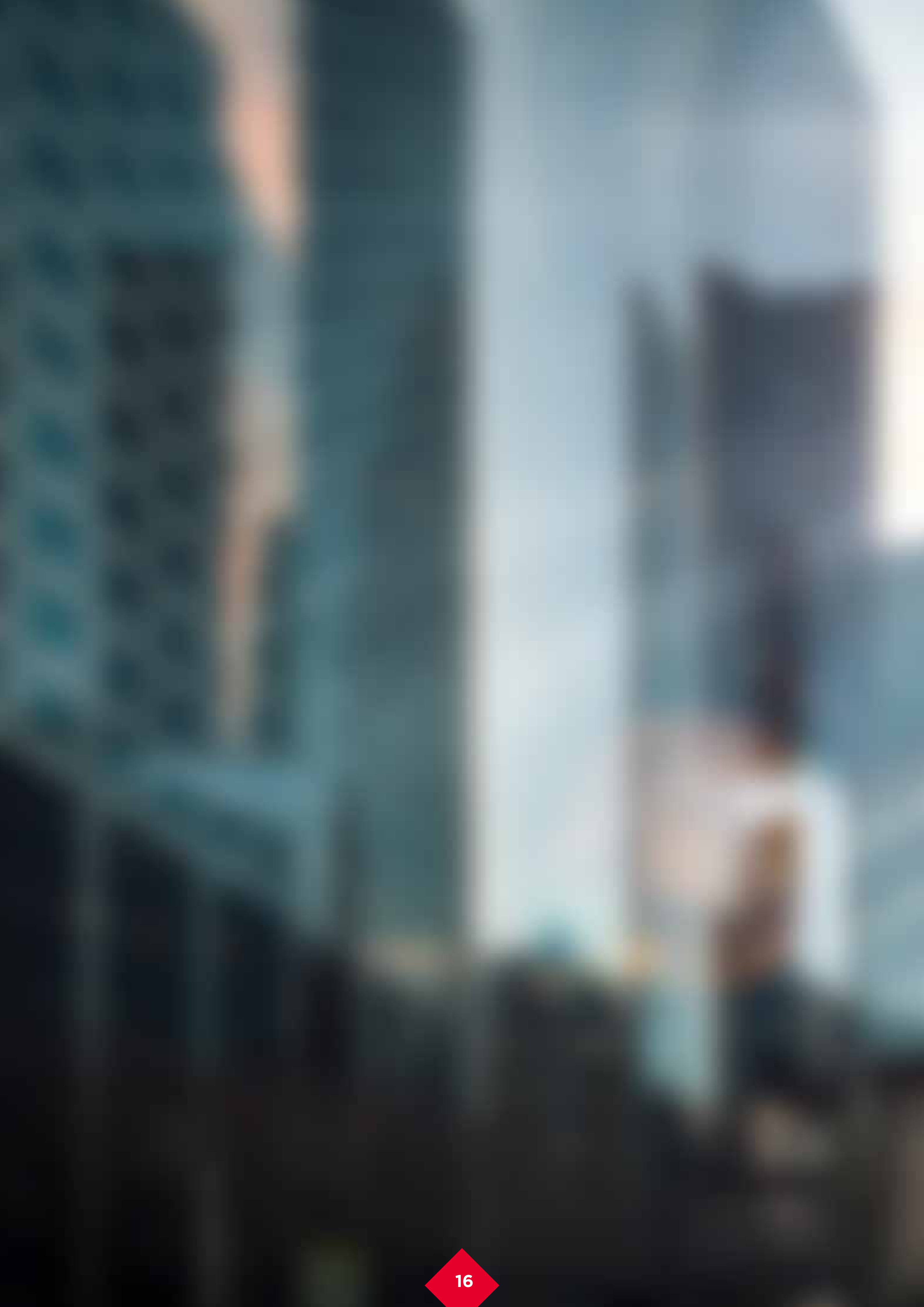

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