

2012 Report on Cooperative Development between Shopping Centers and Chain Brand Merchants in China





Abstract

As at the end of 2011, China had a total of 2,812 shopping centers that were open for business, with an aggregate total commercial building floor space of 177 million square meters. It is estimated that new commercial building floor space of China's shopping centers will surpass 35 million and 44 million square meters in 2012 and 2013, respectively, and by the end of 2013, China's shopping centers in inventory will occupy 250 million square meters. With the upsurge of shopping centers in China, relevant market participants have also grown continuously and adjusted their operation models in a complicated market environment.

2012 Report on Cooperative Development between Shopping Centers and Chain Brand Merchants in China jointly issued by Deloitte and China Chain Store & Franchise Association (CCFA) has summed up our study on the industry, interviews with insiders, as well as conducted quantitative survey on nearly 200 shopping center operators, merchants and consumers and has accordingly analysed the development and myth of China's shopping centers and the factors behind their success, in the hope of inspiring industry participants.

In this study, we received mounting support from brand merchants and developers and operators of shopping centers. We hereby extend our sincere thanks to 156 brand merchants that participated in the survey, as well as Wanda Group, Aeon Mall, COFCO Joy City and YangGuang Co., Ltd. that received our interview.

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Rapid growth and risks faced by shopping centers in China

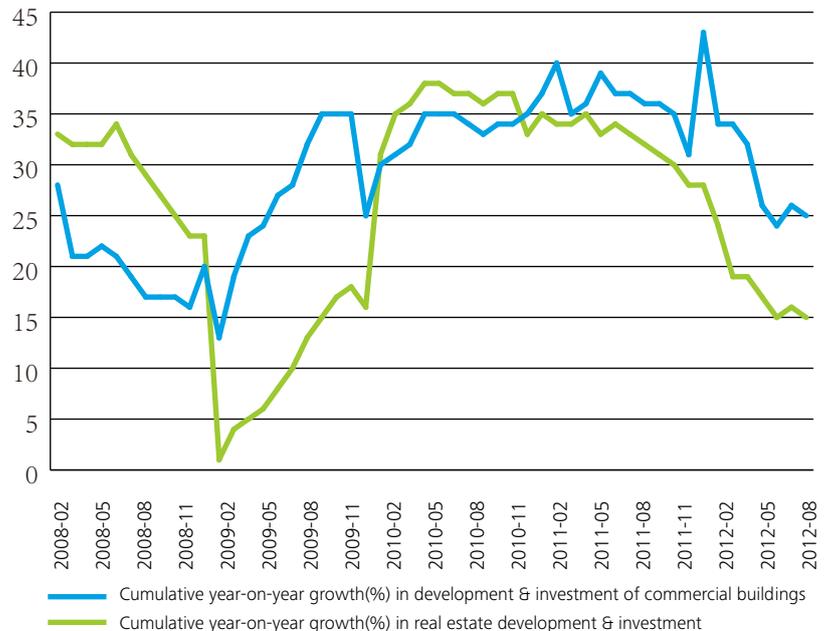
Since 2008, total investment in commercial properties in China has been growing at a rate of over 15%. In particular, after the policy control measures were imposed on residential dwellings in 2012, commercial property investment growth surged forward to 30%, higher than the average figure for the whole of the real estate industry (Chart 1). In 2011, the total investment in commercial real estate was RMB742.4 billion, representing a 31% year-on-year increase; while in 2012, the pace was slowed somewhat but a 25% growth rate was still maintained. In addition, the construction of commercial buildings in China experienced a significant increase in 2010, followed by a moderate slowdown between 2011 and 2012, but still maintaining a strong growing momentum (Chart 2). As of September 2012, a total of 600 million square meters of commercial properties were built in China. There is a construction lead time of 2 to 3 years for common commercial property projects and most of those projects currently under construction will be released to market en-masse around 2015. Therefore, the saturation level of the commercial property market will likely continue to rise in the future and market competition will further intensify.

1. The total number of shopping centers is increasing rapidly in China, which is consistent with the overall trends of the local commercial real estate industry

According to statistics, as of the year-end of 2011, China had 276 newly built shopping centers, making a total of 2,812 shopping centers that are open for business around the country, with an aggregate total commercial building floor space of 177 million square meters. It is estimated that China's shopping centers will increase by 300 on an annual basis, and by 2015, the total number of shopping centers in China is expected to reach 4,000.

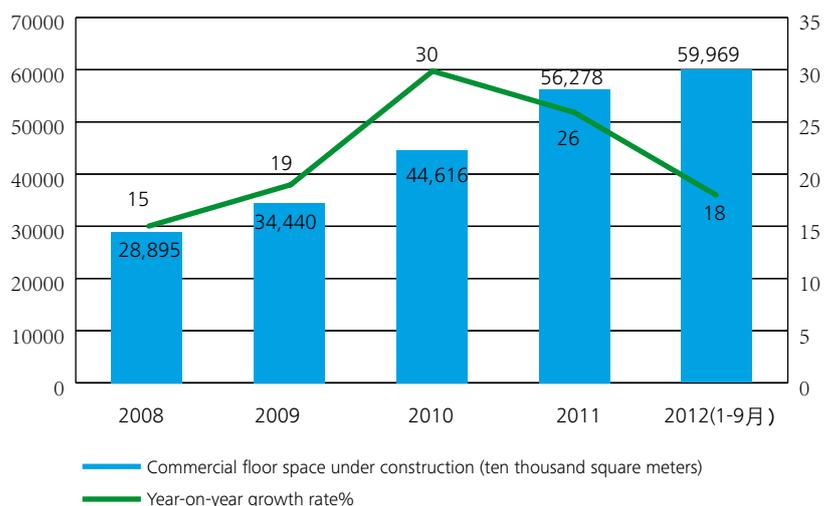
Urbanisation and growth of the service industry are main forces driving the rapid development of China's shopping centers and they will result in uprating of consumption. Undoubtedly, consumers will play a greater role in affecting and guiding retail industry development. The evolving values, demands and behaviors of consumers exert increasingly critical requirements on product personalisation and service experience. For instance, the

Chart 1. Investment growth of commercial property in China



Source: National Bureau of Statistics of China, Deloitte Research

Chart 2. Commercial floor space under construction and growth rate in China



Source: National Bureau of Statistics of China, Deloitte Research

high-income groups and young consumers tend to like to seek more comfortable and fine life-style. They pursue both product values and the consumer experience that fit in with their personal values or interests and hobbies. The adoption of distinct positioning, sound brand management, high quality customer experience and differentiated competition is crucial for achieving this target.

2. Local governments are a big push to the rapid increase of the total shopping centers

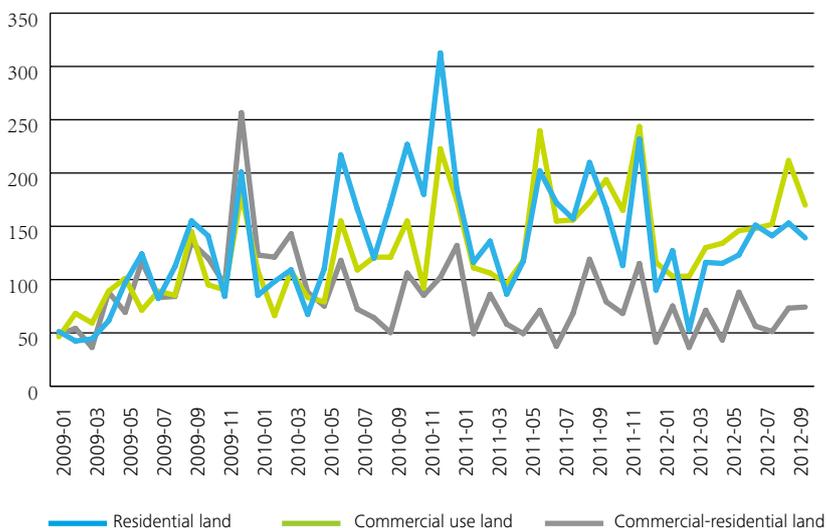
The macro regulatory measures such as limitations on loans and buying property have resulted in a shrinking housing market and a depressed land market. From Chart 3, we can see that there has been a sharp decrease in residential land transaction volumes across 40 large and medium-sized cities in China since 2011, while the transaction volumes of land for commercial use is on a par with or even exceed that of the residential land. Commercial real estate is deemed as an effective approach to increasing local authorities' tax revenue, improving local employment and city image, and addressing the dilemma of "land-based fiscal mode". It is also beneficial for building up the CBD areas with high-growth potentials and boosting property prices in the surrounding areas. However, the decisive factor for the shopping centers to achieve their planned business targets lies in whether the local governments would be able to provide sufficient follow-up support in traffic and transportation, supporting facilities, residential accommodation and population settlement, etc.

Nowadays, the development of China's shopping centers is characterised by large scale and extensive floor space, reaching out to suburban areas and rapid emergence in tier-2 and tier-3 cities. Facing new opportunities and challenges,

developers and operators have to grasp the basics of business and navigate the uncertainty:

An obvious tendency among China's shopping centers is the development trend to move up scale. At present, the average building floor space of shopping centers in China's tier-1 and tier-2 cities is around 70,000 square meters, such as Jinyuan Yansha Shopping Mall (600,000 square meters) and Chaoyang Joy City (230,000 square meters), both of which are huge shopping centers in Beijing. The larger the scale the better the shopping centers can serve residents with "one-stop shopping" experience. However, it is worth to note that although the large scale developments' abilities to attract potential customers is enhanced, but such huge properties will also result in greater pressure on organising relevant business promotion to attract merchants. Bigger is not always better. Notwithstanding the building

Chart 3. Monthly land transaction volume in 40 medium to large cities in China (No. of transactions)



Source: Wind Info

floor space, shopping centers should find clear-cut positioning and seek an optimal balance between profitability and floor space.

Suburb areas are becoming new development territories. In China's tier-1 cities, commercial precincts are spreading from central areas into the suburbs due to high density of shopping malls and rising rents in addition to the improved inter-city transportation and rapid increase of private cars which eliminated the obstacle of distance that used to impede shopping. Suburban shopping centers are often built with larger floor space and offer a wider category of commodities, as they can make full use of the advantage of scale to create a comprehensive business portfolio. Compared to those in central cities, such shopping centers tend to depend more on flagship stores to foster a commercial atmosphere and attract customers.

The competition is intensifying in tier-2 and tier-3 cities. Since 2009, shopping centers have been spreading quickly in those cities. As of January 2012, the total shopping center floor space under construction in China accounted for about 50% of the global total, with tier-2 and tier-3 cities in particular taking the lead. Such regions as Tianjin and Shenyang had over 2 million square meters, while more than 100 shopping center projects were under construction in Chengdu, most of which had over 100,000 square meters of floor space. There are extensive opportunities in the untapped markets and consumption potentials in tier-2 and tier-3 cities, and the local governments will also offer incentive policies or assist with business promotion. But in some tier-2 and tier-3 cities, the development of shopping centers is over-heated, or the local residents' purchase power and consumption propensity have not

reached the appropriate level for large shopping centers. Therefore, developers and operators have to assess the situation and implement the right kind of development projects accordingly.

As an area less affected by macro-control policies, the increased investments in commercial real estate are not surprising at all. However, commercial real estate differs from residential housing market and since most commercial developments are not normally easily replicable and such properties are typically held over long time span with long investment cycle, hence, higher demands are placed on operational and management standard. The shopping center typifies an integration of commercial and retail operations. In addition to the need to cater for development and operational capabilities for commercial properties, it is also essential to consider retail activities' peculiar characteristics, for instance, the architectural structure has to meet the operating requirements of specific type of retail operation; the selection of merchants should be appropriate for the targeted consumer group; and the operation focus should be placed at creating enjoyment to consumer experience, etc. Furthermore, the diversity and variability of retail marketing have undoubtedly raised higher requirements for developers and operators of shopping centers.

China's shopping center industry has entered a phase of intensive adjustments

The upsurge of shopping center construction in China means an increase in inventory, it also means the forces driving shopping center development particularly in tier-1 and tier-2 cities are gradually shifting from a development phase into a period which emphasises both the commercial operation and functions of retail channels. Developers and operators of shopping centers are adjusting their business direction, product portfolios, operation and management models, etc., in order to adapt to development patterns in the shopping center industry and changing consumer demands.

1. Differentiated positioning driving brand adjustment

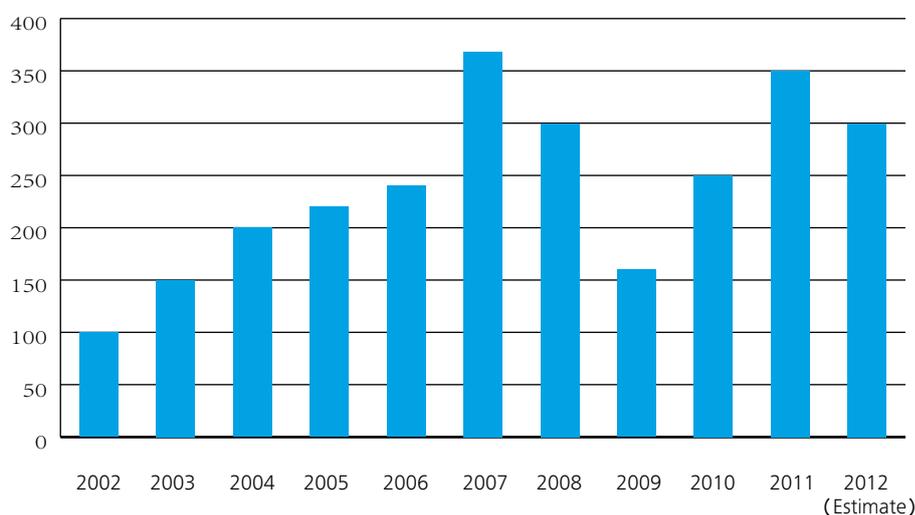
In order to improve performance, shopping centers often readjust their brand portfolio when an operating cycle ends. As the data of newly opened shopping centers in past years (Chart 4) shows, in 2007, China had 368 new shopping centers, reaching a historical high; in 2008, the number moderately decreased to about 300; due to the effects of the international financial crisis, 2009 recorded only about 160 newly opened shopping centers in China; 2010 saw the number of newly opened shopping centers rising to around 250; in 2011, the number exceeded 300. Because most of the retail brands have signed 2-year to 3-year contracts with shopping centers,

for those shopping centers that have opened in 2010-2011, they are likely to be greeted by the first peak period for brand adjustment during 2013-2015. For shopping centers that have opened in 2007-2008, they are likely to face a second period of brand adjustment.

Indeed, the time factor plays an important role in contributing to the peak season of brand adjustment; however, the driving forces at deeper levels come from the increasingly precise positioning and pursuit of efficiency by shopping centers.

The shopping center can integrate diversified business sectors such as shopping, restaurants and leisure recreation, to become a comprehensive business complex that provides "one-stop" consumer services to residents. Although there are many new shopping center projects being developed across the country, the quality shopping centers are disproportionate to the total number of shopping centers and the lack of refined market positioning is regarded as the greatest weakness. Along with the intensified industry competition and enhanced retail management, more and more shopping centers began to more clearly define their market positioning and adjust their brand portfolios on the basis of differentiated positioning and targeted consumer groups.

Chart 4. The number of newly opened shopping centers in China in past years



Source: Mall China Information center (Mall China), Deloitte Research

In 2011, Joy City took middle-income people and youngsters aged 18-35 as its target consumers and positioned its products as “young, fashionable, stylish and high-end”. Beijing Chaoyang Joy City and Beijing Xidan Joy City also adjusted their brand portfolios. Although the two shopping Centers belong to the Joy City category under the property segment of COFCO, their brand adjustments focus on different aspects. Located in Chaoyang CBD, East Fourth Ring, Beijing, Chaoyang Joy City is an emerging high-end residential area. To be better positioned in fashion and expand its target market, in 2011, Chaoyang Joy City terminated cooperation with the flagship store Aeon Stores, rebuilt the original department store (20,000 square meters) into over 100 fashion stores and introduced Zara, Muji, Occupation Experiential Education Center of EE City and other brands to attract its target consumers.

Located in the heart of Xidan CBD, Beijing, with daily visits of over 200,000, Xidan Joy City is targeted at young fashionistas. Its large and stable customer traffic contributes to rising profits, which in turn drive up rental income and revenue per unit area. The brand adjustment pushed up per customer transaction of Xidan Joy City from the original about RMB200 to RMB400 and also helped form a competitive environment propelled by commodities and services rather than prices in Xidan CBD.

In respect of positioning and brand adjustment strategies of shopping centers, insiders shared with us their insights and experience during the interview:

Different locations lead to different roles of flagship stores: downtown shopping centers are mostly fashionable and stylish, with small retail floor space but large customer traffic. Some shopping centers are trying to increase their earnings mainly by combining their secondary flagship stores with small shops; while suburban large shopping centers mostly center on family recreation, and their flagship stores play an obvious role in attracting potential customers; department stores,

supermarkets, electric centers and cinemas are common main forces that attract customers for suburban shopping centers.

Brand adjustment should be closely linked with consumers’ demand: close to Chaoyang Park, Beijing Solana Lifestyle Shopping Park sees high-income families as its major consumers. Given its saleable children education and children-related retail businesses, Solana pays attention to reinforcing this strength during its brand adjustment. Solana Kids Town which was open in October 2012 attracted numerous world-renowned maternity & childcare and early education brands covering clothes, toys, food, education and training for 0-to-10-year-old children, providing brand-new consumption experience for young parents.

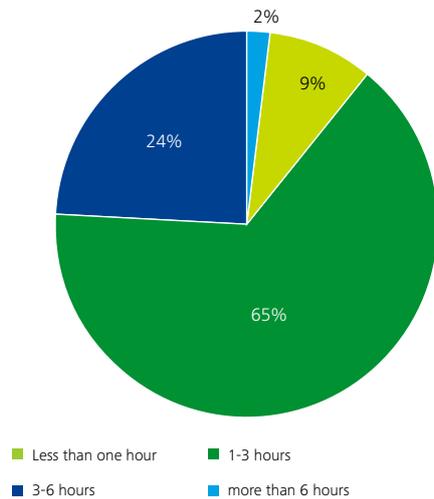
Planning and construction should be forward-looking: shopping centers should be forward-looking in preliminary planning and construction, area and location arrangement of flagship stores, and lease term with merchants; only in this way can they leave some room for subsequent adjustments and have the initiatives in adjustment.

2. Catering and leisure recreation operation account for a larger proportion

A view of operation proportion of 5:2:3 of shopping, catering and leisure recreation has long been widely shared in the industry. However, a parallel proportion of shopping, catering and leisure recreation is increasingly common.

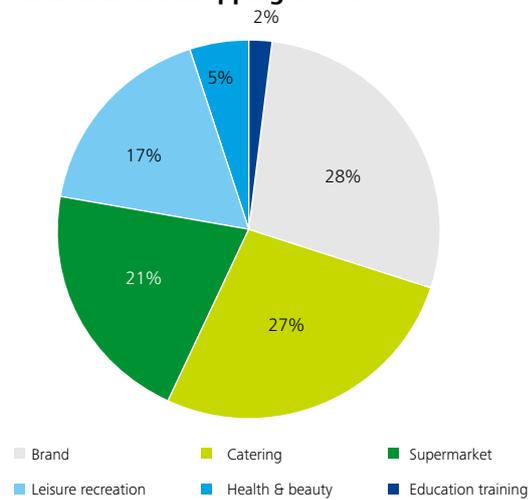
With the development of commerce, consumers are focusing more on shopping experience. Movie, meal and KTV have climbed up their routine consumption lists when they visit shopping centers. In this study, we conducted a random sampling quantitative survey on consumers of shopping centers. The result shows 65% of respondents usually spend 1-3 hours in the shopping centers and 24% spend 3-6 hours (Chart 5), and catering and leisure recreation have become main forces in attracting customers for the shopping centers (Chart 6).

Chart 5. Time that consumers interviewed spend in the shopping centers



Source: 2012 shopping center consumer survey: CCFA, Deloitte Research

Chart 6. Major activities of consumers interviewed in the shopping centers



Source: 2012 shopping center consumer survey: CCFA, Deloitte Research

For operators, clothing stores and other retail stores are greatly impacted by e-commerce channels, and catering and leisure recreation have undoubtedly become the only way for shopping centers to achieve experiential marketing and prolong the time that customers spend in the shopping centers. Quick in development and accumulation of a large number of customers, catering and leisure recreation usually become the fastest customer attractors in the shopping Centers as enterprises are increasingly passionate to enter shopping centers.

It is more evident that catering accounts for a larger proportion in the newly opened shopping centers. Capitaland Mall Sun Palace that was open in 2012 occupied a retail floor space of about 80,000 square meters, including five upper ground floors and two underground floors. In particular, the fourth and fifth floors provide catering services, with percentage of 40%. After one-year operation, Shanghai ASE Center changed its business structure of parallel development of clothes, catering, leisure recreation and digital products to a business pattern centering on catering and leisure recreation, with catering business accounting for 60%. The said two shopping centers are located in CBDs with small customer traffic and a scattering pattern of catering, so they increased catering and leisure recreation operation to boost customer traffic.

Currently, more and more traditional department stores in China are transformed into shopping centers (i.e. shopping centralisation of department stores). During the initial period of operation, traditional retailers usually account for 70%-80%, versus a small proportion of catering and leisure recreation providers. As department stores gradually change into shopping centers, the proportion of catering and leisure recreation operators will undoubtedly increase.

It is noteworthy that there is no absolute standard for distribution of shopping, catering and leisure recreation sectors, and each developer or operator has different views. Despite strong ability to attract potential customers and make consumers stay longer, catering and leisure recreation

contribute low rental income. Take shopping centers in suburban Beijing for example (Chart 7), rental of its retail brands stands at a range of RMB3-18/m²/day, versus approximate half rental from catering and leisure recreation. Therefore, in the cultivation period of shopping Centers, operators mostly introduce catering and leisure recreation operators to improve the ability to attract potential customers; in the mature stage, operators give more consideration to earnings and theme positioning of shopping centers and properly adjust the sectors and brands to strike a balance between the small contribution of catering and leisure recreation to value enhancement of the shopping centers and the low rental.

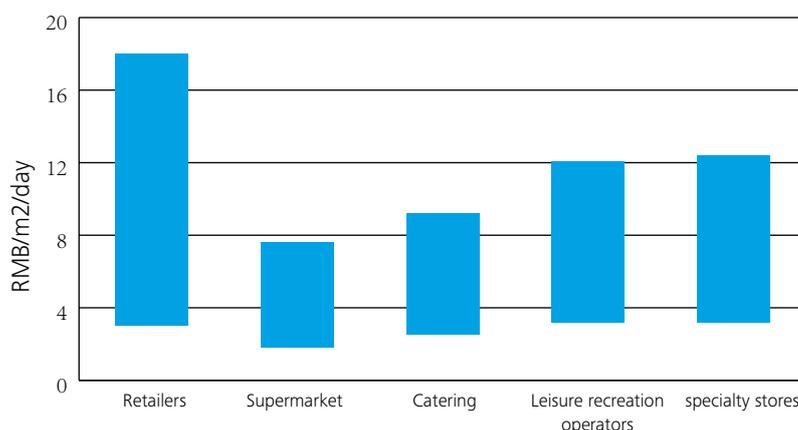
3. Property developers and retailers are more willing to hold or construct properties by themselves

Development and operation of China's shopping centers are mainly undertaken by residential developers and large retailers respectively. With years of experience in residential development and other buildings, domestic property companies usually prefer to sell properties to quickly recover capital and transfer operating pressure; retailers are not engaged in developing buildings but conduct unified operation and management of commercial properties based on their own commercial resources and operational experience. However, property developers and retailers both show stronger will to hold and construct properties by themselves as the market environment changes.

In China, the major models currently used by property developers in holding commercial properties are set out in Table 1. SOHO China, which was mainly engaged in strata-title sales, said that along with the ending of urbanisation peak of China, the era of massive building and sales of properties will also leave for good, so it will turn to hold properties. The strata-title sales often make unified management on commercial projects unfeasible, making them home to low-quality merchants and unable to appreciate in the long run.

In contrast, via long-term operation and cultivation, the rental income from quality projects increases significantly, indicative of marked real

Chart 7. Rentals for different sectors of suburban shopping Centers in Beijing



Source: 2012 shopping center consumer survey: CCFA, Deloitte Research

Table 1 Major models used by property developers in holding commercial properties

Representative enterprises	Type of enterprise	Features	Model
COFCO, China Resources	State-owned enterprise	Advantages in capital and land resources; relatively low financial costs; shifting from other industries to real estate	Mainly self-owned
CapitaLand, Hang Lung Group, YangGuang	Foreign funded	Strong financing ability; rich experience in commercial property; rental income has become a major source of fund for project development	Solely self-owned
WANDA, Century Golden Resources	Private enterprise	Ensuring stability of cash flow via developing and selling some properties with the main merchants; land taxes mainly coming from emerging business circles and newly developed areas	Complex buildings: For sale & rent; core commercial shopping centers: For rent only, not for sale
SOHO China	Private enterprise	Entered the property industry early; having land in core areas in tier-1 cities; strong selling group	Shifting from strata-title sales to possession

Source: China Business Journal, CCFA, Deloitte Research

estate appreciation. Hang Lung Group adopts a model of “for rent only, not for sale”, and makes profits through effective team management. Hang Lung’s rental income from projects in Mainland China shoots up on sound properties and brand advantage. In particular, the rental income of Grand Gateway 66 Shanghai increased by nearly 16 times from HK\$60 million in 2001 to HK\$940 million in 2011, making it a prime example of commercial properties in Mainland China (Chart 8). The focus of shopping centers in tier-1 cities is now shifting from development to operation. Given this background, some well-funded developers are bullish about the increasing rent of shopping centers and value-added proceeds of properties, so they opt to hold properties for long, to achieve chain development, operation and management of brand shopping centers.

Meanwhile, retailers are more willing to build properties by themselves, firstly they hope to increase property values through successful commercial operation; secondly they are facing great pressure from increasing rents of commercial properties.

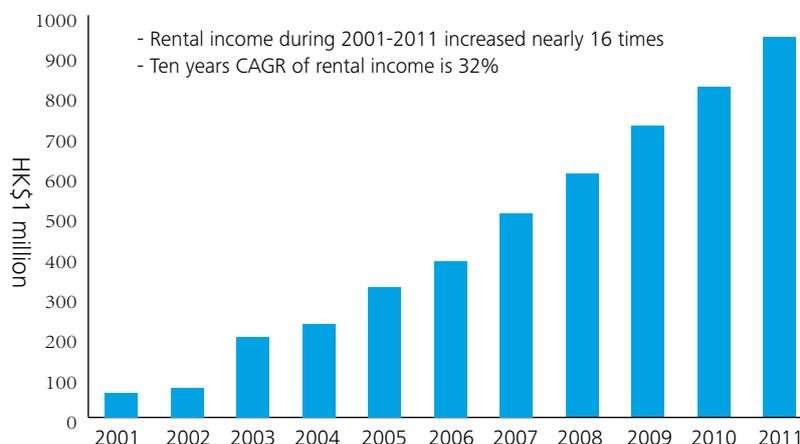
Hunan Better Life Group built a shopping center in Xiangtan, which has a total floor space of

120,000 square meters; the operation area of Ito Yokado Shilibao Store developed jointly by Ito Yokado and developers exceeded 20,000 square meters, which skated round the problem of area limitation faced by demanding brand stores under the previous “pure rent” model; after building shopping centers in Daxing, Beijing, IKEA also intends to extend the self-build model to Shanghai and Pearl River Delta. It plans to invest RMB4 billion in the construction of its first shopping center in Shanghai, so as to independently operate commercial properties in China. Obviously, the retailers’ new strategy of self-building is a deliberate decision. However, self-building features large investment and long, slow-return, and may affect the business expansion if large amounts of money are spent on land purchasing.

4. Shopping Centers in tier-2 cities enter an era of multi-polar competition and integration

Given maturing shopping centers in tier-1 cities and improving consumption and supporting facilities in tier-2 cities, tier-2 cities become the new magnets for shopping center development and attract various developers and retailers, entering a multi-polar competition era.

Chart 8. Rent growth of Grand Gateway 66 Shanghai



Source: 2001-2011 annual report of Hang Lung Group

In spring 2012, Jones Lang LaSalle issued Top 50 Emerging Cities in China, which listed 50 tier-2 and tier-3 cities with abundant commercial property development opportunities and predicted that in the next decade major cities in the top 50 emerging cities will build over 80 million square meters modern retail properties and nearly 30 million square meters Grade-A offices, thereby bringing a large supply of commercial properties onto the market. Among many tier-2 cities getting shopping center projects quickly under way, Chengdu, Tianjin, Shenyang, Hangzhou and Wuhan showed strong competitiveness (Table 2). These cities are now leveraging massive infrastructure construction and economic development to attract mature and brand developers, regional and foreign developers. Take Chengdu for example. At present, developers that have entered Chengdu include Poly Real Estate, Longfor Properties, China Resources, Wanda, Beijing Wangfujing Department Store and CapitaLand. Over 100 urban complexes are now under construction in

Chengdu. Every complex measures above 100,000 m² in floor space and is equipped with shopping centers. It is estimated that 10 million square meters of floor space of urban complexes will enter the market in the coming years.

However, shopping centers swarming into the market will certainly push up the vacancy rate of new commercial properties and affect the original commercial market. As a result, the vacancy rate of commercial properties will go up and the industry is about to step into a crucial phase of M&A and integration. Most newly-built shopping centers are located in the new development areas which are less attractive for international retailers. Therefore, in some cities, commercial properties for rent saw sluggish market and newly completed ones even remained vacant for long since 2012. In tier-2 cities, some huge shopping center projects poorly located are now facing increasing pressures in attracting merchants, and may see a M&A boom in the near future.

Table 2 Comparison on economic indicators of some tier-1 and tier-2 cities

City	Total population by end 2011 (10000 persons)	2011 GDP growth	2011 per capita disposable income (RMB)	2011 overall retail sales of social consumption products (RMB100 million)	2011 fixed assets investment (RMB100 million)
Shanghai	2,347	8.2%	36,230	6,777	4,960
Beijing	2,019	8.1%	32,903	6,900	5,520
Guangzhou	1,270	11%	34,438	5,243	3,412
Tianjin	1,355	16.4%	29,916	3,395	7,041
Chengdu	1,149	15% *	19,919	2,861	4,944
Wuhan	827	12.5%	20,806	3,032	4,255
Shenyang	723	12.3%	20,541	2,427	4,577
Hangzhou	696	12% *	34,065	2,548	3,100

Notes* GDP growths of Chengdu and Hangzhou are 2010 data

Source: National Bureau of Statistics of China, Deloitte Research

Per capita commercial area has been widely recognised as one of the important indicators in determining whether the commercial real estate sector in one city is overheated. In western developed countries, the per capita commercial area usually stands at around 1.2 square meters, while in China, the figure exceeds 1.2 square meters in many tier-2 cities or even comes up to

2-3 square meters in some cities, signalling an overheat market. Besides, shopping centers face many risks in the short run, e.g. excessive supply, uneven operational capability, talent bottleneck and financing plight. In the next 3-5 years, some commercial projects have to face the fate of shutdown, reorganisation and acquisition.

Table 3 M&A transactions of shopping centers in tier-2 and tier-3 cities during 2011-2012

Time	Acquirer	Acquired enterprise/ project	Location	Equity acquired	Amount (RMB100 million)
2012/09	Fidel	OUTLET (Guangdong)	Foshan	55%	5.8
2012/07	South China	Caishun Company (Dafa Square)	Shenyang	100%	15.96
2012/07	Xiamen Meisui Commercial Trade	Xiamen Xindeco Department Store Co., Ltd.	Xiamen	Undisclosed	0.5
2012/06	HNA Group	Changchun Side Shopping Center	Changchun	100%	Undisclosed
2012/05	Dashang Group	Better Homes	Chengdu	100%	Undisclosed
2012/05	YangGuang	Deran Commercial Trade Co., Ltd.	Tianjin	100%	Undisclosed
2011/11	Perennial China Retail Trust	Cloud Nine Shopping Mall	Chengdu	50%	22.8
2011/09	CapitaMalls	Huzhou Jinji Lake Project	Suzhou	50%	Undisclosed

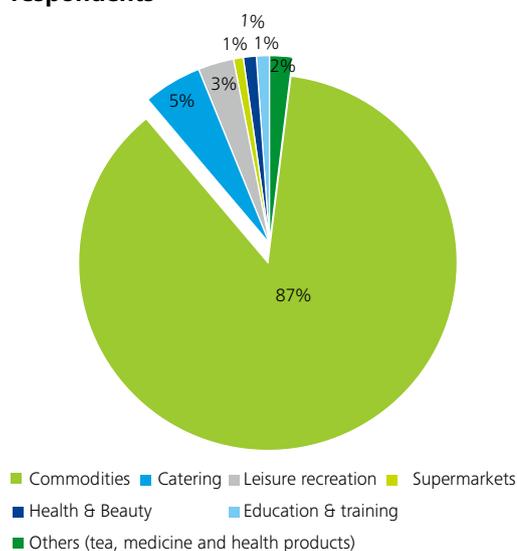
Source: Deloitte Research

Survey Results of Chain Brand Merchants of Shopping Centers

Different from other commercial properties, shopping centers are not only the platform integrating various brands, but also a platform offering management and services for various brand merchants, which are closely related inter-dependently. Quality shopping centers should have absolute brand influence and loyalty among the chartering retailers and terminal consumers. In order to know the cooperation between shopping centers and merchants, and the requirements and expectations of brand merchants, we conducted a quantitative survey on chain brand merchants of shopping centers and received 156 qualified responses. The survey results are set out below.

1. General information of merchant respondents

Chart 9. Distribution of merchant respondents

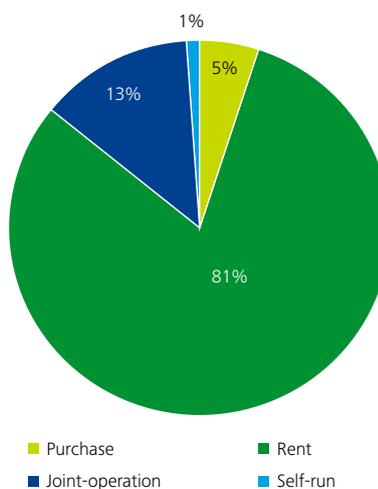


Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

A total of 156 merchants took part in this research, including 138 respondents, accounting for 87%, engaging in retails, include apparels, cosmetics, jewellery, electronic product and books, audio & video products; 7 respondents (5%) in catering; 5 respondents (3%) in leisure recreation; and 6 respondents (4%) in health & beauty, education and others.

The current survey results mainly reflect brand retailers' plans and desires. Since there are few samples of other sectors, relevant results thereof are for reference only.

Chart 10. Operation models usually taken by merchant respondents



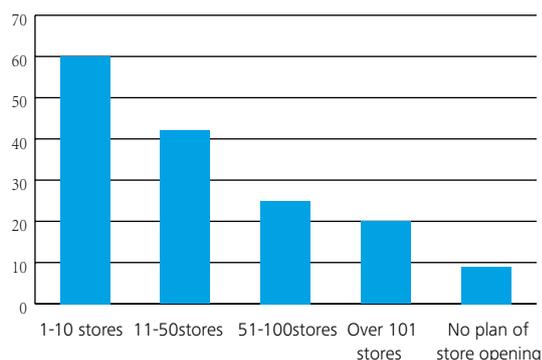
Source: 2012 survey on merchants in shopping Centers; CCFA, Deloitte Research

Merchants mainly rent properties for business. In 156 merchant respondents, 126 of them, accounting for 81% rent the properties; 21 respondents (13%) take joint operation; 8 respondents (5%) purchase retail shops, and only one respondent takes self-run.

It should be specified that "rent" does not mean "pure rent", there are four models, include pure rent, pure deduction of turnover percentage, minimum rent + deduction of turnover percentage, and minimum rent or deduction of turnover percentage whichever is higher. At present, most shopping centers in China adopt the latter two models. Certainly, this depends on the negotiation between merchants and proprietor. Sometimes, there are several lease models in one shopping center.

2. Store opening plans for the next 3 years

Chart 11. Merchants respondents' national store opening plans for the next 3 years



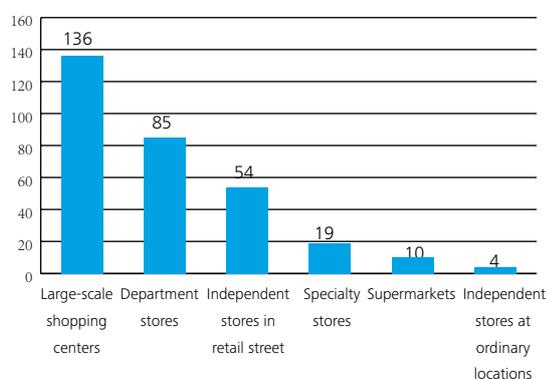
Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

The survey covers 156 merchants. Two thirds of them did not plan to expand nationwide for the next three years, including 9 merchants did not plan to open stores, 60 merchants planned to open less than 10 stores and 42 merchants planned to open less than 50 stores.

20 merchants planned to open more than 100 stores in the next three years, their businesses are apparels, jewelry, cosmetics, fast food chain and drugstore chains..

3. Entering willingness and considerations

Chart 12. Store locations of merchant respondents



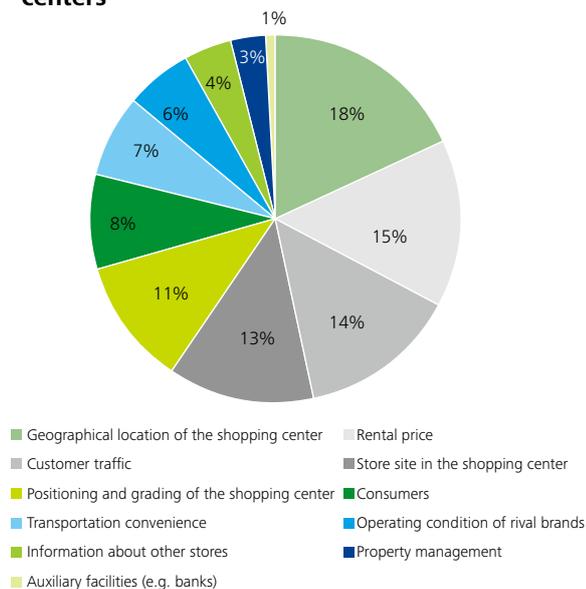
Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

The fact that large-scale shopping centers are the top priority site for merchants that reflects their strong investment will. This is mainly because

the nationwide rapid development of shopping centers will boost expansion of chain stores.

Many shopping centers have built or set about developing their own brand bases. They tend to enrich their commercial resources by choosing brands that embody its business position and help them maintain a long-term good relation. Joy City said 60% to 75% of its business orders are secured by its shopping centers through the brand base of the headquarter, while others are at the discretion of merchants. This reflects a symbiosis featuring long-term cooperation and joint development between shopping center and its merchants.

Chart 13. Priority considerations of merchant respondents in choosing shopping centers



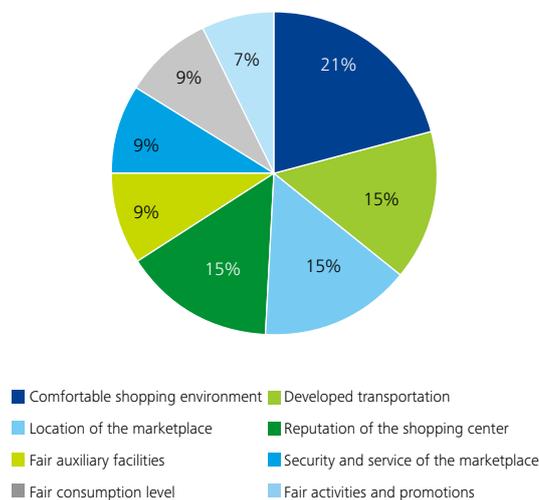
Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

The top three considerations of merchants in choosing a shopping center are: geographical location, rental price and customer traffic, showing that the capacity to attract visitors is crucial for shopping centers to attract merchants. Suburban shopping centers, now growing in number, should make full use of anchor store, industry combination, activities for attracting visitors and brand promotion to enhance its ability to attract visitors, thus better attracting key tenants.

A vantage location in the shopping center is also a major consideration but superior location is limited after all. So, operators of shopping centers need to lay out brands efficiently to lead consumers experience various businesses and brands.

4. Evaluation and expectations for shopping center operation

Chart 14. Key features of major shopping centers



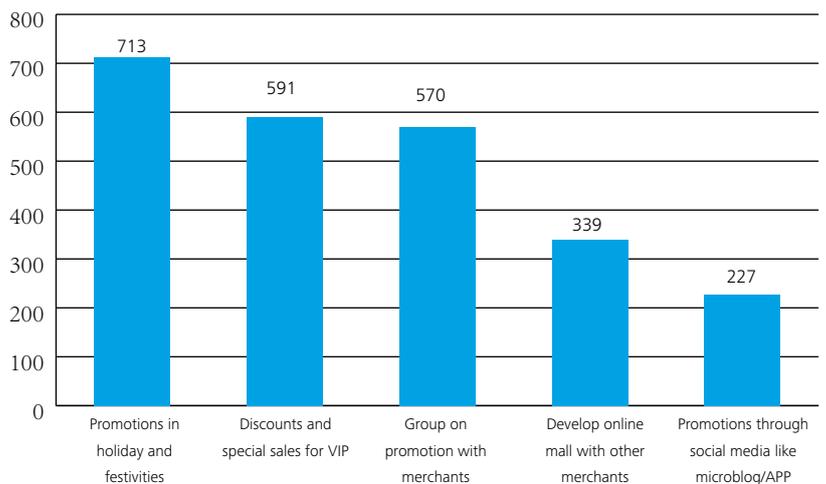
Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

Merchants believe that the significant features of high quality shopping centers include comfortable shopping environment, convenient transportation, favorable geographical location and their reputations. It is a highly demanding task for the management team of shopping centers to create a pleasant shopping experience for they have to be professional in respect of sales promotion, customer retention, retailer management and property management.

The merchants particularly noted that the competence of shopping center staff in their service, marketing, emergency response and commodity display also matters. Service staff of various stores and brands, although employed by merchants instead of the shopping center, should accept the management and training of the shopping center. After all, a highly qualified staff will surely

create initiate value for both merchants and the shopping center.

Chart 15. Effectiveness of shopping center's marketing strategy for sales promotion (in order of extent)



Note: The weighted scale has five points, the highest being 5.

Source: 2012 survey on merchants in shopping centers; CCFA, Deloitte Research

Brand promotion in the marketplace is one of the key operations to shopping center, as its reputation and profit depend on the performance of its brands.

In evaluation of shopping centers' marketing strategies, promotions in holidays and festivities were recognised as the most effective strategy and got the highest score, followed by special brands promotions and discounts. Apart from the above traditional promotion channels, there are some emerging promotion methods like groupon promotion with merchants, online mall development, and promotions through social media.

Promotions with personal access terminal as the medium through network platform are becoming popular and are expected to become one of the mainstream marketing methods.

72 of the 156 merchants respondents have developed online marketing while running brick-and-mortar outlets, reflecting potential of online shopping. But how to bring together online and offline shopping to yield synergetic effect was left to be a new challenge for retailers.

Conclusion

The rapid growth of shopping centers in China owes itself to China's accelerating urbanisation and consumption upgrading, however, it also benefits from the downturn in the residential market and motivation from local governments. This requires investors and developers to be cautiously optimistic and make rational judgment for various projects as different cities have their distinct development priorities against the overall uptrend shopping center market.

Generally, shopping centers in tier-1 cities have shifted their focus from expansion to operation, with some of them themed on fashion, family, children and art. The themed shopping centers always differentiate themselves through space design, business layout and brand selection. This is common not only for new shopping centers but also those under operation pursuing for greater profitability and distinctive characteristics. Shopping centers in tier-2 cities still focus on development and expansion, which had attracted plenty of investment from various developers. However, an oversupply of new shopping centers, despite some good in quality, is sure to push up vacancy rate. Some large gross floor areas and unfavourable located shopping centers have a hard time on finding tenants. The drive to build shopping centers in tier-2 cities is slowing its pace, perhaps signalling a new era of M&A integration in future.

Shopping centers have a strong vitality and growth potential in China. However, it cannot be accomplished overnight and relies on long-term operation with professional management. A sanguine anticipation for real estate value and commercial operating profits of shopping centers helps an increasing number of developers to shift from selling shops to own and operate properties, which inevitably requires expertise in financing and retailing. These two aspects are mutually reinforcing and complementary. A shopping center can enhance its safety and profitability as a financial product (such as REITs) only when its expertise is enhanced.

The value of a shopping center cannot be achieved without refined operations management, in which the cooperation with merchants is of vital importance. Apart from effectively managing merchants' tenancy agreement, the owner should pay attention to supporting them in sales innovation, exhibition, marketing and personnel training, and making dynamic adjustments. Developing and growing together with the merchants is vital for shopping centers in maintaining and improving their long term value.



China Chain Store & Franchise Association (CCFA)

Established and registered with the Ministry of Civil Affairs in 1997, China Chain Store & Franchise Association (CCFA) is the sole national industry association in chain store and franchise fields in China. Currently, there are over 1,000 corporate members operating 200,000 outlets, including domestic & overseas retailers, franchisers, suppliers and relevant organisations. The total sales of CCFA member retailers reached RMB2.1 trillion in 2011, accounting for 12% of national total in consumer retail sales. By upholding the principle of "guidance for industry, service to members, repaying the community, and improving the association", CCFA participates in policy formulation, coordination while safeguarding industry interests and members' welfares. The association organises a series of professional training and industry information and data dissemination for our members and establishes platforms for industry exchange and cooperation. (www.ccfa.org.cn)

CCFA Shopping Center Cooperation Committee

Established at the end of 2008, the Shopping Center Cooperation Committee (SCCC) constitutes a part of CCFA. Pursuant to CCFA Charter and under the CCFA Council's leadership, SCCC operates under the unified coordination of CCFA Secretariat.

SCCC consists of the volunteer representatives from CCFA member companies engaged in operating department stores, general supermarkets and large speciality stores, hotels, restaurants, and service industry activities as well as real estate development. They represent the common interests and views of enterprises in the sector.

The aim of SCCC is to promote the exchange and cooperation among enterprises and help franchise-chain businesses to explore successful experience of sustainable development in everyday practice. The primary methods and mission tasks of SCCC are holding joint salons (exchange seminars) for franchise-chain brands and shopping Centers, organising and holding topical discussion workshops on shopping Centers during China Retail Industry Convention, arranging domestic and overseas inspection study tours for enterprises, and editing professional journals, etc.

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