LIFE IS WHAT WE MAKE IT

June 2023

STEPPING UP CONSUMPTION

INTERNATIONAL CONSUMPTION CENTRE CITY RETAILING IN CHINA

CUSHMAN & WAKEFIELD
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GREATER CHINA RESEARCH

CONTENTS

EXECUTIVE SUMMARY

The Chinese economy has shifted from a phase of high-speed growth to one of high-quality development, with expanding domestic demand becoming the strategic cornerstone of China's economic development during the 14th Five-Year Plan and the following decade. Against this backdrop, China has put forward the goal of cultivating and building international consumption centre cities. These cities will play a leading role in promoting sustained growth and quality improvement in national consumption by serving as a driving force for other regions to follow.

International consumption centre cities represent a higher form of domestic consumption market upgrading, as well as a platform and hub for connecting with the global consumption market and attracting consumers worldwide.

Consumer behaviour and its understanding will be key for retailers if they are looking to succeed in international consumption city markets in China in the future. On this note, from January 2023 to April 2023, Cushman & Wakefield conducted research on 3,622 consumers in 23 cities and towns in China, as well as interviews of executives from several emerging brands. By gaining insight into new trends in Chinese consumer behaviour and the market in general, the goal is to help brand owners and retail property owners uncover the market opportunities and succeed.

With the development of technology and the increase in residents' income in China, as well as changes in population structure and the high-quality development of urban clusters, the clustered-city middle class, the provincial city youngsters, and the "silver surfers" are gradually becoming the main consumer groups in China. Their demands, preferences, and behaviours are also showing new changes and international consumption centre cities in China will need to keep abreast of these changes to remain competitive.

Moreover, brand owners and retail property owners will leverage the development and business momentum of international consumption centre cities to continuously explore new sources of consumer and consumption growth, including:

- **Urban "third spaces";**
- **The "first store economy";**
- **The "15-minute city";**
- **"Green" consumption;**
- **"Health" consumption, and;**
- **The Metaverse...**

...thereby unlocking the full potential of urban consumption in China in the future.

PROLOGUE

Duke Zhen

Managing Director
Head of Retail Services,
China

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The central and local government is expected to continue to work to strengthen the “First Store Economy” and “Night-time Economy” sectors. Moreover, traditional submarkets will be upgraded, and smart business districts and 15-minute life circles will be promoted. Finally, the retail market’s overall quality and consumer engagement will be enriched. Alongside this, Cushman & Wakefield Greater China’s Retail Service Department will continue to deeply cultivate the Chinese retail market and make an unremitting effort to make China a leading retail market in the world.”

Shaun Brodie

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In the context of consumption upgrading, as well as paying close attention to product functionality, fashion, trends and uniqueness, consumers in China will also attach much significance to a shopping centre’s shopping experience, socialisation and digital intelligence. Brand and retail property owners will continuously introduce new products and services to assist in the development of international consumer centre cities in the country.”

INTRODUCTION

Over the past few decades, China's economy has developed rapidly, and the quality of life for its residents has significantly improved, making China the world's second-largest consumer market. In recent years, as China's economy has shifted from a high-speed growth phase to a high-quality development phase, expanding domestic demand has become a strategic cornerstone for China's economic development in the 14th Five-Year Plan period and for the next decade.

The central and local governments are taking various policy measures to expand consumption. For example, in the 14th Five-Year Plan (2021-2025), it emphasises "building a strong domestic market" and proposes to adhere to expanding domestic demand as the strategic basis. In December 2022, the Central Committee of the Communist Party of China and the State Council issued the "Strategic Plan for Expanding Domestic Demand (2022-2035)" and the "14th Five-Year Plan" implementation plan for expanding domestic demand. Moreover, at the 2023 Central Economic Work Conference, it was proposed to give top priority to the restoration and expansion of consumption.

Against this backdrop, China has put forward the goal of nurturing and building international consumption centre cities. These cities will play a leading role in promoting sustained growth and quality improvement in consumption throughout the country through their significant influence. Brand owners and property developers in the retail sector will take advantage of the momentum generated by these centres to explore new growth opportunities in emerging consumption areas and meet the evolving needs of Chinese consumers.

Part 1

INTERNATIONAL CONSUMPTION CENTRE CITY RETAILING IN CHINA

Consumption is and is expected to be the main driver and ballast stone of China's economic growth. The central and local governments have issued a series of major policy measures to promote consumption, and "cultivating and building international consumption centre cities" is an important task among them.

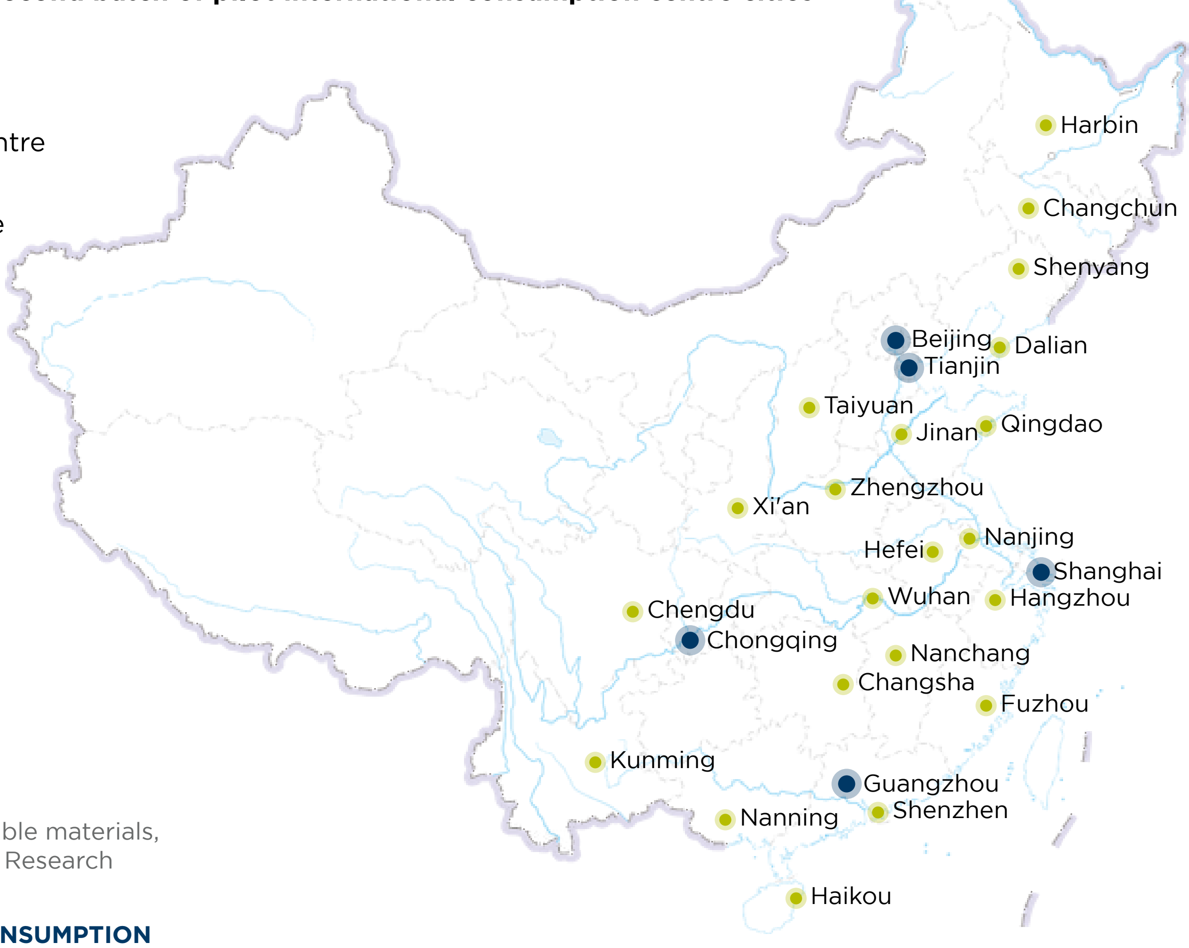
The international consumption centre city concept is an advanced form of domestic consumption market upgrading. Designated cities act and will act as a platform and hub for connecting with the overall global consumption market. On 19 July 2021, the State Council approved five cities, consisting of Beijing, Shanghai, Guangzhou, Tianjin, and Chongqing, to take the lead in cultivating and building international consumption centre cities. What's more, a batch of more than 10 other cities, including Shenzhen, Wuhan, Changsha, Xi'an, Hangzhou, and Nanjing, have also successively released plans to build international consumption centre cities (Figure 1).

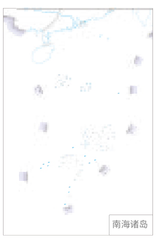
Figure 1:

The first five pilot international consumption centre cities in China and cities vying to be included in the second batch of pilot international consumption centre cities

The first 5 pilot international consumption centre cities

Cities vying to be included in the second batch of pilot international consumption centre cities





Source: Publicly available materials, Cushman & Wakefield Research

International consumption centre cities in China, under the context of economic globalisation, essentially promote the integration, free flow, and innovation of various consumption elements such as:

- **Products;**
- **Services;**
- **Talent;**
- **Technology;**
- **Capital, and;**
- **Information…**

Notably, the development of international consumption centre cities is of great significance to China's acceleration in building a new development system with the domestic cycle as the mainstay and the dual circulation economy being the main body of this new system.

A STRUCTURAL TRANSFORMATION OF THE ECONOMY

Promoting consumption growth has now become a key factor in China's economic structural transformation. To provide an understanding of how this structural change has come about, in this chapter of our report, we take a look at three aspects, namely:

- **China's development and its new journey;**
- **China's economy and how it is transforming to become consumption-driven, and;**
- **China's massive consumer market.**

China's development commences a new journey

Over the past few decades, China's economy has been developing rapidly. The country's stable social environment, abundant natural resources, low labour cost, and healthy business environment have attracted a large number of multinational companies to invest and develop in the country. At the same time, Chinese enterprises have seized this historic opportunity by fully utilising supportive domestic policies, population dividends, and stable and efficient supply chains, to achieve leapfrog development.

In recent years, as technological capabilities have improved, low-end labour costs have risen, and "green" and low-carbon development has been pursued, China's economy has transitioned from a high-speed growth stage to a high-quality development stage. Traditional manufacturing enterprises have accelerated their transformation and upgrading towards intelligent, "green", and service-oriented models. Service enterprises have also accelerated their transformation towards specialisation, high-quality, diversity, digitisation, and a high-end extension of the value chain.

Affected by the COVID-19 pandemic and international geopolitical uncertainty, the global economy now faces the risks of high inflation and weak growth. In the face of a complex international economic situation, the Chinese central and local governments have prioritised expanding domestic demand in their economic work report for 2023. Thanks to the adjustment in pandemic control measures and the policies of consumption stimulation, Chinese people are now more willing to consume. In March 2023, the total retail sales of consumer goods in China reached RMB3.7855 trillion, up 10.6% year-on-year (y-o-y) (Figure 2).

What's more, according to data from Cushman & Wakefield, the daily customer footfall traffic in prime shopping centres in Beijing, Shanghai, Guangzhou and Shenzhen increased significantly from January to April 2023, compared with the same period last year (Figure 3). Additionally, the customer flow in some areas has recovered or exceeded the level recorded during the same period in 2019.

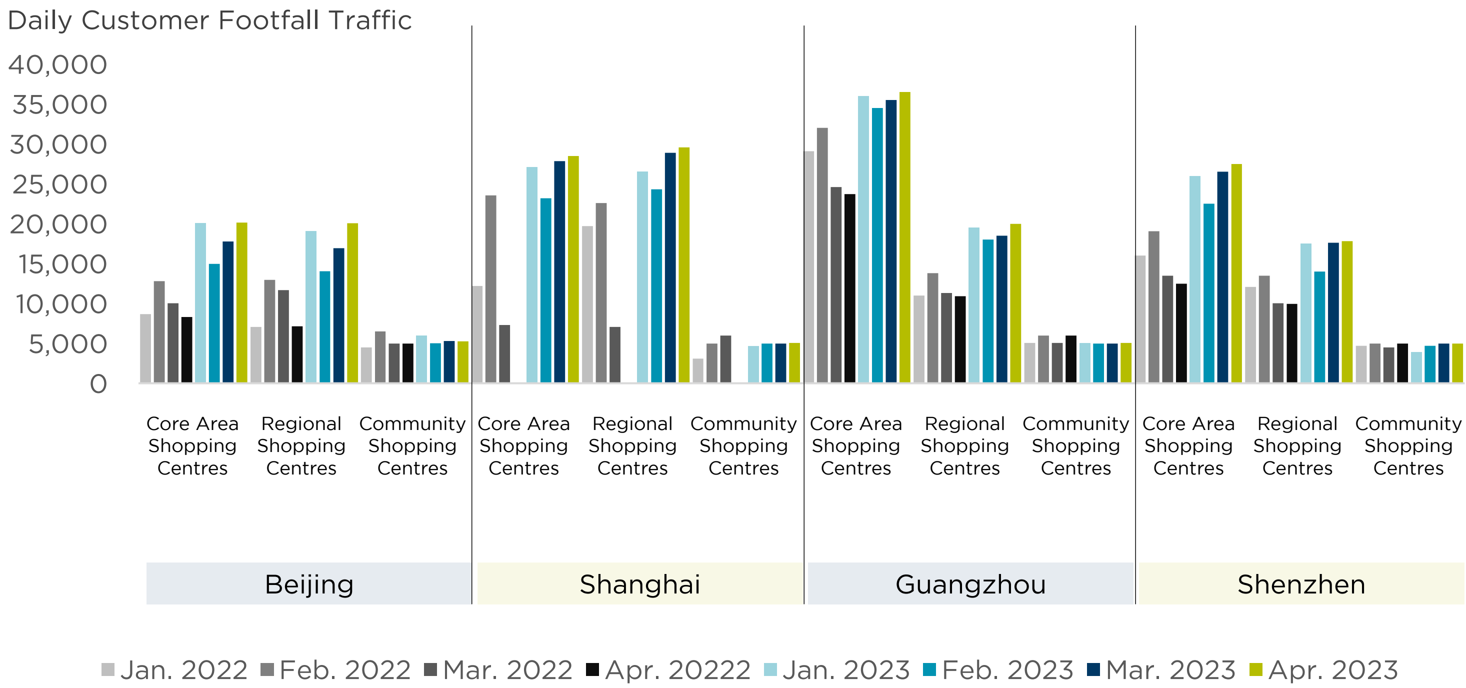
Figure 2:

The growth rate for China's total retail sales of consumer goods (March 2022 – March 2023)

Source: National Bureau of Statistics (China), Cushman & Wakefield Research

Figure 3:

Selected shopping centres in China's first-tier cities: Average daily customer footfall traffic (January – April 2022 and January – April 2023)



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

Meanwhile, during the recent May Day holiday in 2023, the number of domestic tourists in China reached 274 million, up 70.83% y-o-y, and up 119.09% when compared to the same period in 2019. On the other hand, China's domestic tourism revenue reached RMB148.56 billion, up 128.90% y-o-y, and up 100.66% when compared to the same period in 2019. Thus, the Chinese retail market is now thriving and full of vitality.

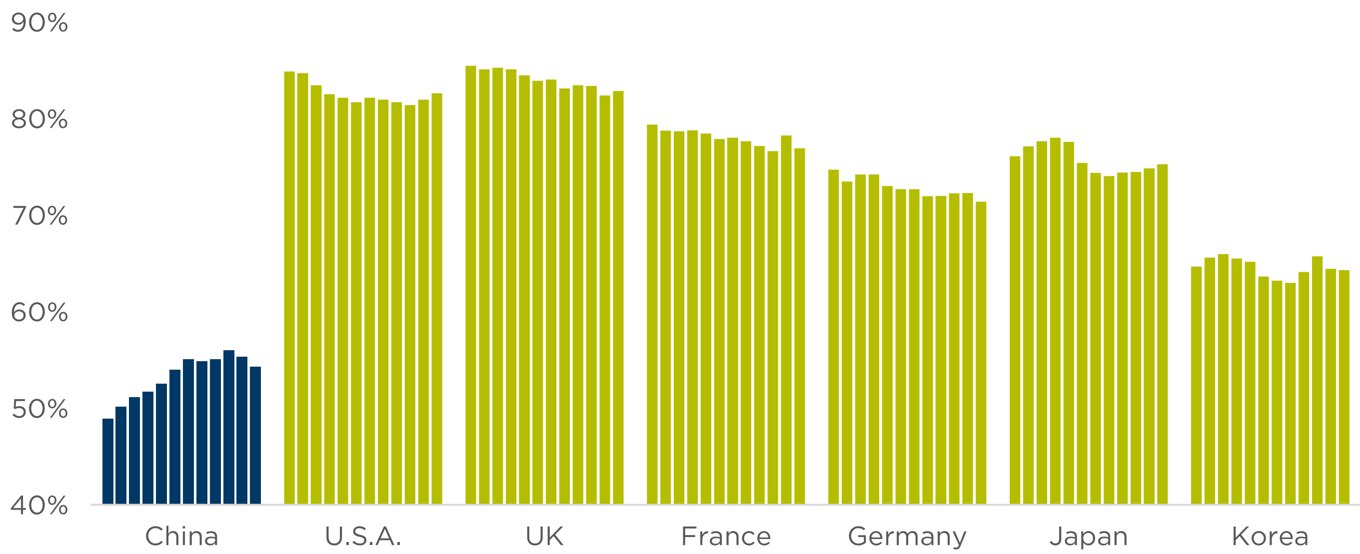
China's economy is transforming to become consumption-driven

From the perspective of economic development seen in developed regions, countries such as the United States, the United Kingdom, Japan, and Germany largely completed their industrialisation goals before the 1990s and began to enter their "post-industrial society" eras. Their respective societies after the 1990s have been supported by a number of industries, including services, high-tech, and knowledge-based industries. In the meantime, the continuous growth of consumption has driven the development of high-tech industries, manufacturing industries, modern service industries, "green" industries, and other industries in these countries. Their economies have now largely shifted from production-driven and investment-driven to consumption-driven.

Compared with developed countries around the world, China's consumption potential still has room for further expansive growth. According to statistics from the World Bank, in 2021, final consumption accounted for 54.3% of China's GDP, while the ratios for developed countries such as the United States, the United Kingdom, France, Germany, Japan, and South Korea were 82.6%, 82.8%, 76.9%, 71.4%, 75.3%, and 64.3%, respectively. Therefore, China's final consumption as a percentage of GDP is still relatively low when compared to many developed markets and economies (Figure 4).

Figure 4:

Final consumption expenditure – Selected countries (% of GDP) (2010 – 2021)



Source: World Bank, Cushman & Wakefield Research

1. The aggregation of high-quality consumer resources – This will guide enterprises to increase the supply of high-quality goods and services. Brand economies will be developed to attract new product launches from well-known domestic and foreign brands, and the cultivation and development of the service consumption industry will be accelerated;

2. Building new consumption localities – This will create a number of new consumption vicinities with a strong international influence. The construction of smart business districts will be promoted, and commercial streets with a focus on pedestrian walkways will be upgraded;

3. The promotion of integrated innovation in consumption – The transformation and upgrading of physical commerce will be encouraged. A number of commercial and leisure demonstration projects will be created and the transformation of traditional department stores, large sports venues, and idle industrial plants into new development carriers such as consumption experience centres, leisure and entertainment centres, and cultural and fashion centres, will be facilitated;

4. A trendsetter for consumption – A number of international product and service consumption platforms will be developed. Domestic and foreign important consumer brands will be encouraged to launch new products and services, and the development of new business formats such as trend-setting fashion and creativity within the cultural industry will be promoted;

5. Strengthening the construction of a consumption-friendly environment – Consumption environment-enhancing projects will be developeddeveloped, and the quality and level of services will be improved. The efficiency of transportation networks will be augmented, and a fully effectual logistics distribution system will be established. Moreover, market regulation and consumer rights protection will be further perfected;

6. Improving the mechanism for promoting consumption – Policies related to promoting consumption will be formulated/improved, and the consumption competitiveness of cities will be enhanced.

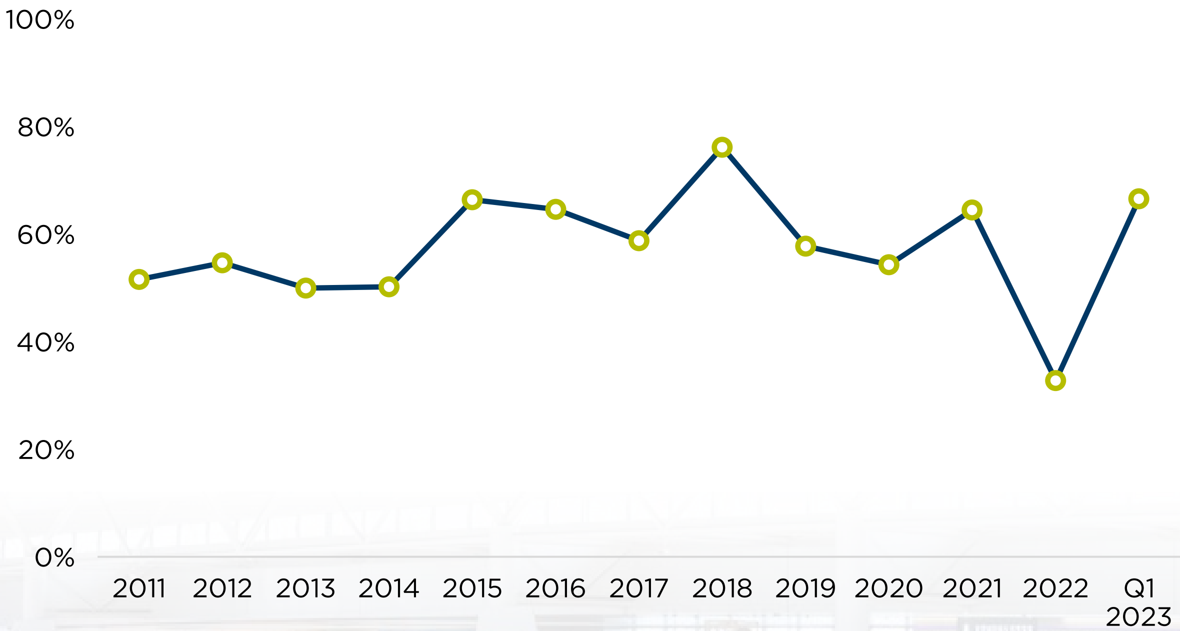
In a nutshell, China's international consumption centre cities will play a leading role in promoting sustained national consumption growth and quality improvement in the country in the future.

The massive consumer market

China has been the world's second-largest consumer market and the largest online retail market for several years. In 2022, the total retail sales of consumer goods reached RMB44 trillion, with online retail sales of goods reaching RMB12 trillion. Meanwhile, China's final consumption expenditure as a percentage of gross domestic product has remained above 50% for 11 consecutive years (Figure 5).

Figure 5:

Final consumption expenditure in China (% of GDP) (2011 – Q1 2023)



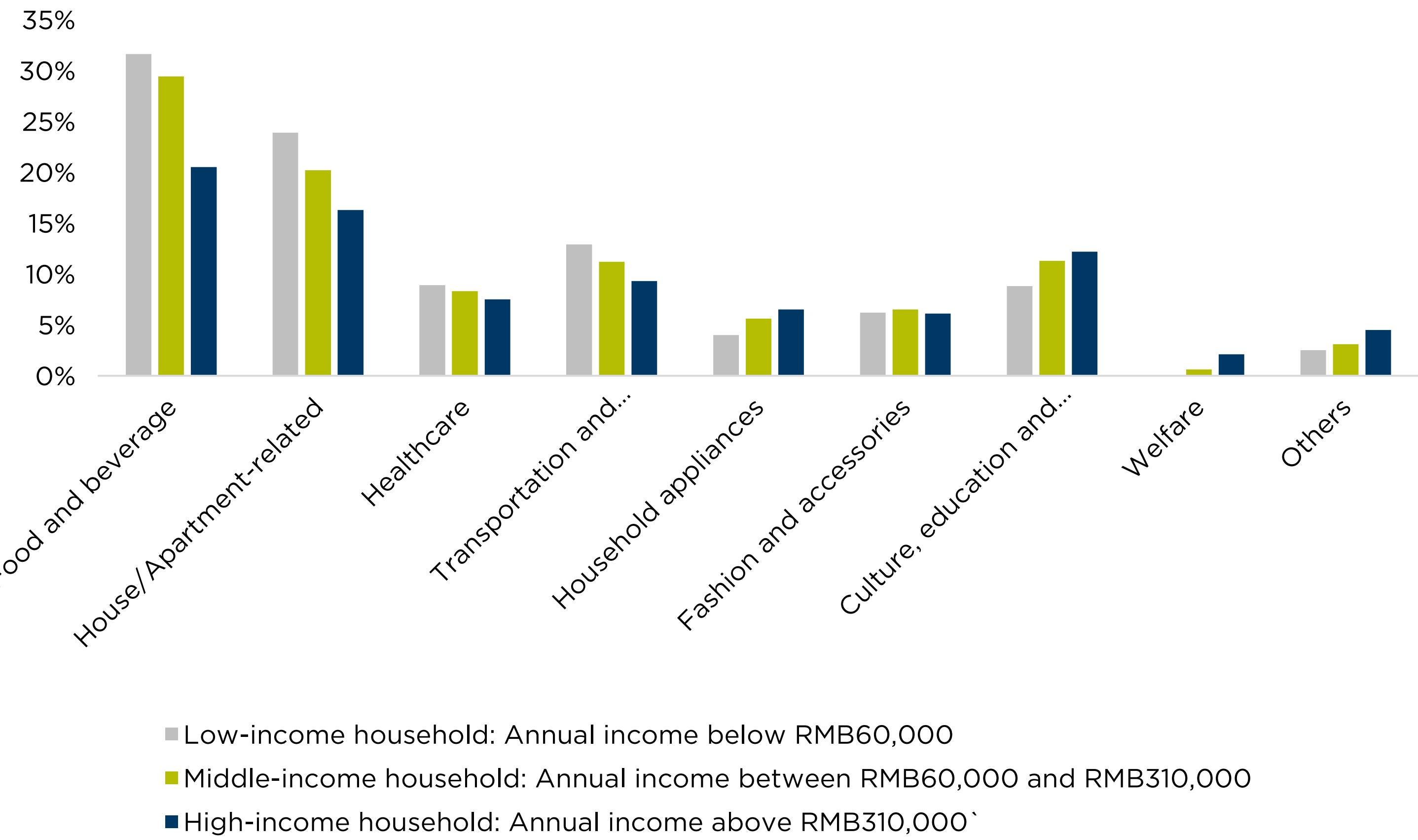
Source: National Bureau of Statistics (China), Cushman & Wakefield Research

With the rapid development of China's economy and society, the middle-income group has been continuously expanding. Currently, the size of China's middle-income group is about 400 million people, accounting for about 30% of the population. The Development Research Centre of the State Council predicts that by 2030, the middle-income group in China will exceed 50%.

The rapid growth of the middle-income group will not only promote the growth of consumer demand but will also drive consumption upgrading. Meanwhile, the consumption outlook for the middle class is a future that will focus on further improving the quality of life, as well as citizens' mental and physical wellbeing, with a relatively high proportion of spending in the areas of culture and entertainment, home appliances, automobiles, travel, cosmetics, beauty and skincare products, sports and fitness, and education (Figure 6).

Figure 6:

Consumption structure for different income households in China (2022)



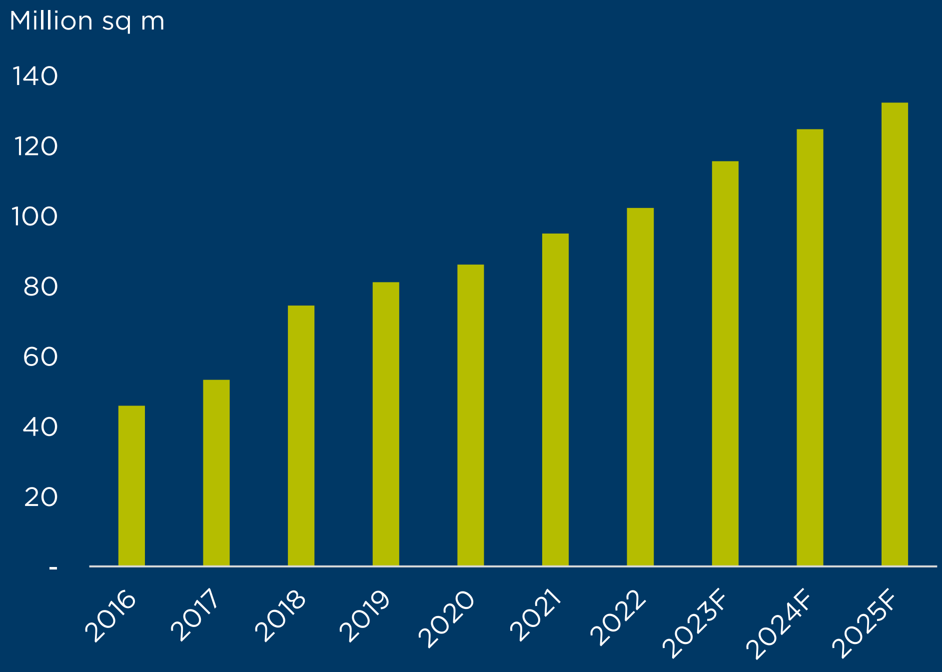
Source: CFPS, Cushman & Wakefield Research

Moreover, shopping centres and retailers in China are constantly exploring new consumption formats, new business modes, and new retail scenes, so as to expand scenarios and dimensions related to consumption and meet the material and spiritual needs of consumers.

The rapid growth in size of the middle-income group in China has promoted the upgrading of China's retail market, including retail real estate. According to data from Cushman & Wakefield, the stock of middle and high-end shopping centres in 16 first- and second-tier cities in China exceeded 0.1 billion sq m in 2022 (Figure 7).

Figure 7:

The stock of middle and high-end shopping centres in 16 first-tier and second-tier cities in China (2016 – 2025)



Source: Cushman & Wakefield Research

Ahead, as China further develops and expands its number of international consumption centre cities so a further upgrading of this 0.1 billion sq m stock – towards digitalisation, a greater shopping experience for the consumer and more enhanced project-related environmental sustainability standards – is expected to transpire.

Part 2

DECODING THE LATEST CHINESE CONSUMER TRENDS

The clustered-city middle class, the provincial city youngsters and the "silver surfers" have become the main consumer groups in China with the emergence of new technologies, rising incomes, the change of population structure and agglomerated city development. It is these consumer groups, among others, that international consumption centre cities in China will need to pay close attention to.

The clustered-city middle class

The middle-income group in China mainly lives in city clusters. At present, the population of China's 12 city clusters has exceeded 900 million, accounting for 65% of the total population. Meanwhile, the middle class in the 12 city clusters reached 330 million people, accounting for about 82.5% of the middle-income groups in China.

In the future, China's middle-income group will continue to expand. The clustered-city middle class will become a very significant force in the development of China's international consumption centre cities and consumption upgrading in general, with the transformation and enhancement being influenced by the following factors:

The rise of self-satisfaction consumption

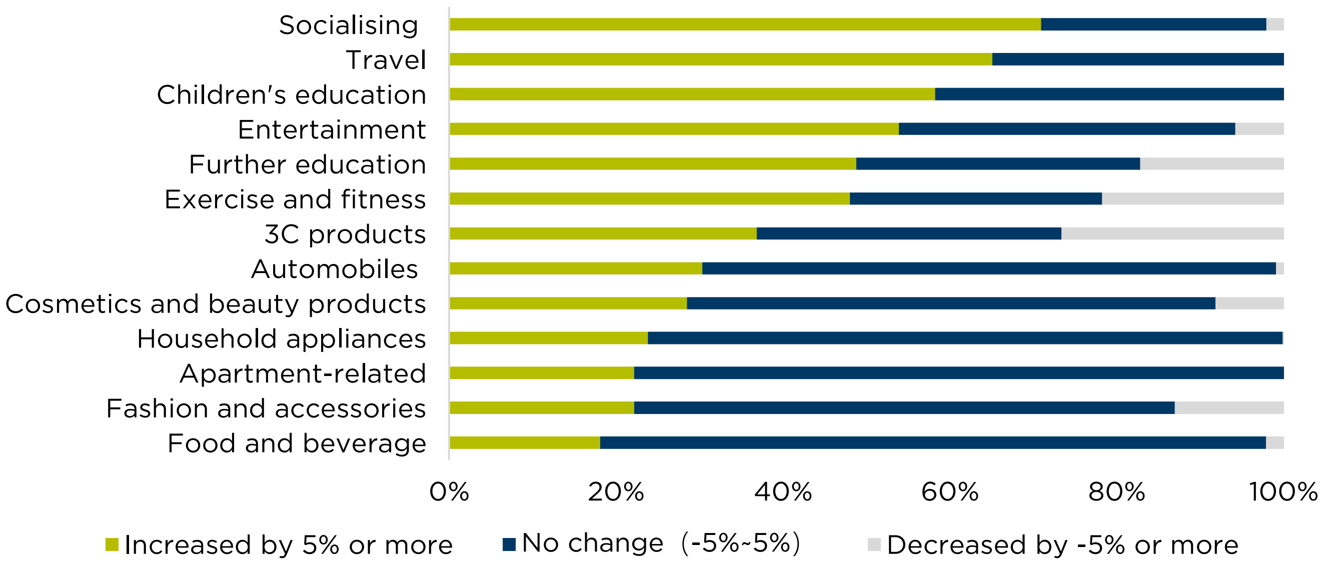
With the rapid growth of China's economy, the material life of middle-class families in city clusters is getting more affluent. These consumers are no longer satisfied with the basic material needs such as food and clothing. Their consumption concept has changed from the pursuit of basic material goods to branded goods and products to spiritual consumption to please themselves. There are three main types of "self-satisfaction consumption" in China:

- **"Social self-satisfaction consumption", which refers to consumers paying for socially relevant content to achieve self-satisfaction and happiness;**
- **"Immediate self-satisfaction consumption", which refers to consumers purchasing goods or services for short-term enjoyment and emotional experiences;**
- **"Developmental self-satisfaction consumption", which refers to consumers investing in education and health to enhance their sense of self-worth.**

According to Cushman & Wakefield Research, more than 50% of respondents to a survey we conducted of clustered-city middle class consumers in China plan to increase spending on socialising, travel, children's education and entertainment in 2023. At the same time, nearly 47.9% of the respondents plan to increase spending on learning improvement, and sports and fitness, indicating that the COVID-19 pandemic has propelled clustered-city middle class consumers to pursue more intimate relationships with family and friends, a greater enjoyment of learning, and better physical and mental health (Figure 8).

Figure 8:

Changes in the clustered-city middle class's willingness to spend in major consumption sectors in China over the past three years (2021 and 2023)



Source: Cushman & Wakefield Research

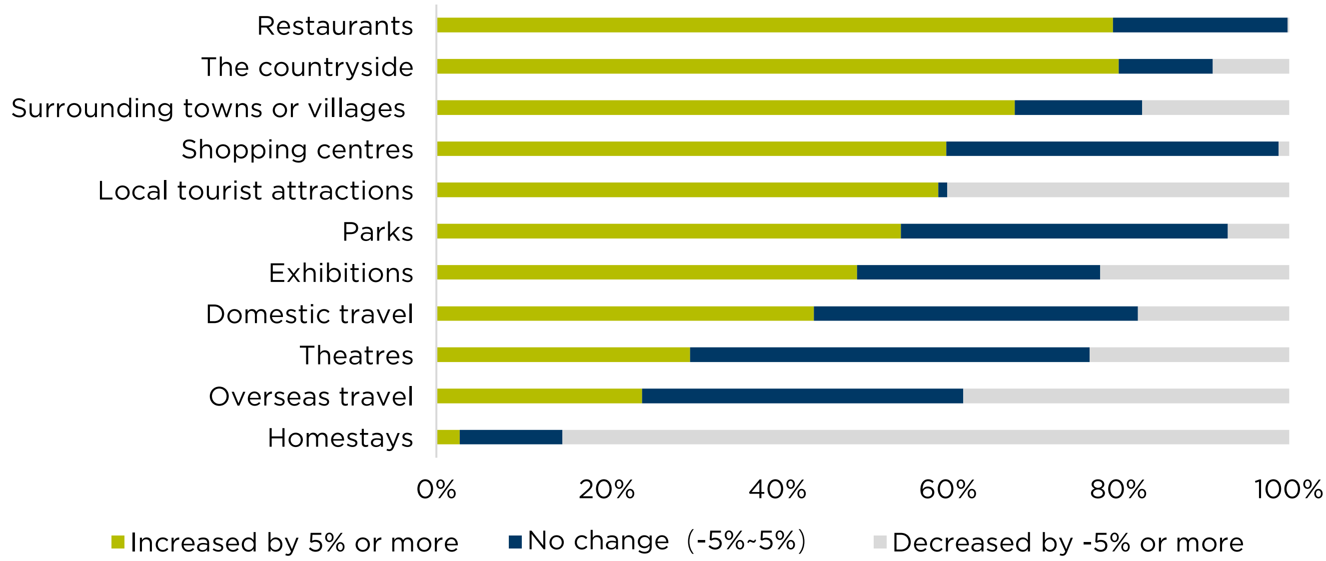
In the meantime, today, it has become the norm for the urban middle class to go to restaurants, museums, the countryside, musicals and talk shows to relax on the weekends or during the holidays. Especially after the COVID-19 epidemic, clustered-city middle class consumers in China are more eager to "go out".

What's more, due to the improvement in transport infrastructure and the optimisation of epidemic control policies, clustered-city middle class consumers in China are no longer limited to local consumption and entertainment. They are now willing to go to surrounding towns or villages for recreation purposes on the weekends.

According to Cushman & Wakefield Research, 79.3% of clustered-city middle class respondents to our recent consumer survey in China will increase their frequency of dining out. Meanwhile, the most popular places for the clustered-city middle class to visit are the countryside, surrounding towns or villages, shopping centres and local tourist attractions, with more than 58.9% of respondents planning to increase their number of visits. Because of various factors, about 38.2% of the clustered-city middle class consumers in China cancelled or delayed overseas travel (Figure 9).

Figure 9:

Changes in Chinese clustered middle-class consumers' willingness to spend during weekends or holidays (2021 and 2023)



Source: Cushman & Wakefield Research

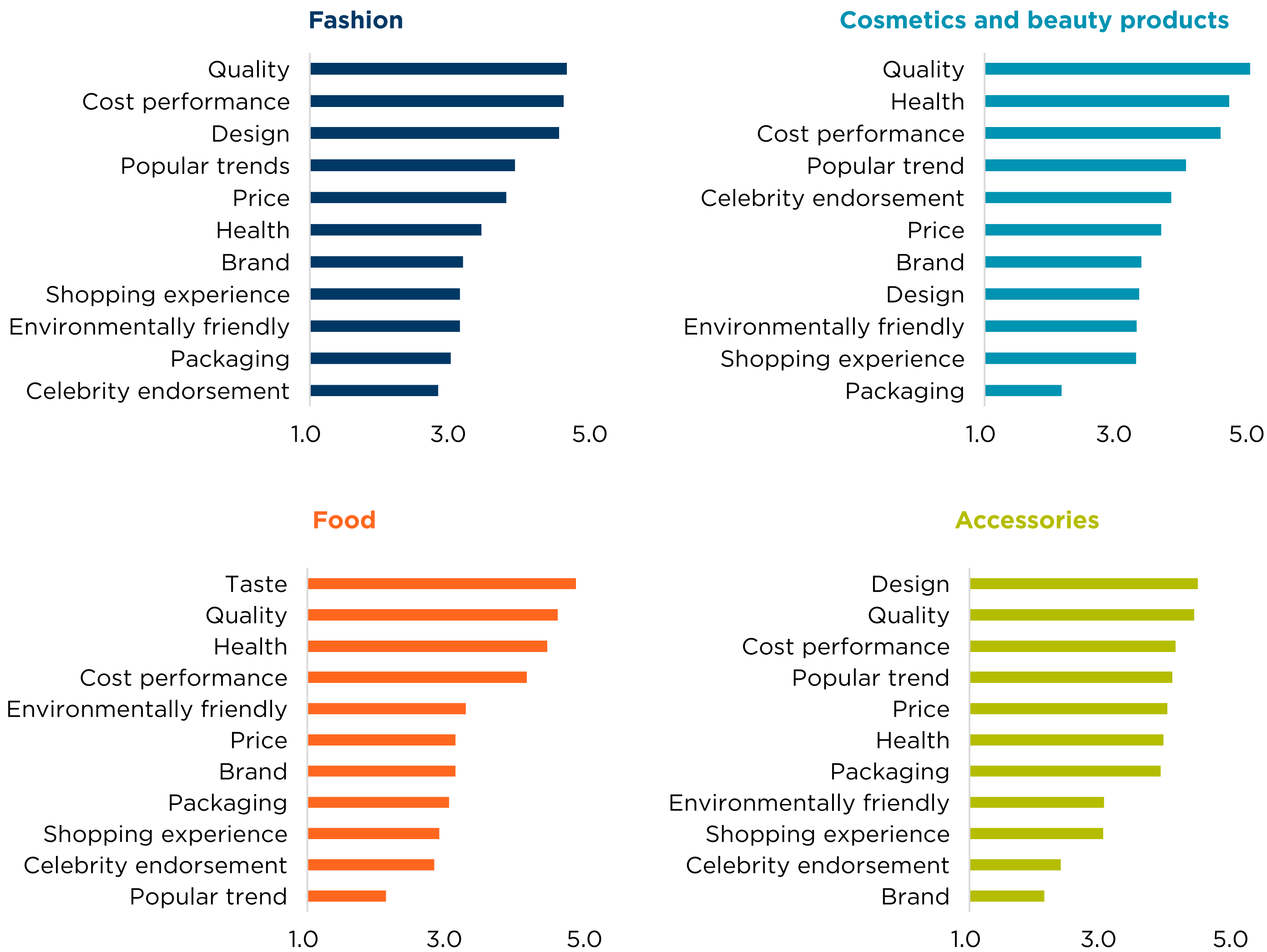
Rational consumption

Nowadays, the clustered-city middle class in China is also no longer keen on excessive material consumption. Their consumption concepts have turned towards high-quality, purchasing restraint and sustainability.

In addition, the clustered-city middle class no longer readily trust advertisements and traditional marketing, but rather gather product information through various channels to make purchase decisions after comparison and analysis. In line with this, Chinese clustered-city middle class consumers are no longer willing to pay a premium for global brands, mainly because compared to a number of unknown brands with high quality and favourable price, some well-known global brands have suffered from a number of issues related to their products and marketing. Product quality, product design, health, cost performance and popular trends have become the most important factors for clustered-city middle class consumers in China to buy products (Figure 10).

Figure 10:

The major factors for clustered-city middle class consumers in China to buy products (2023)

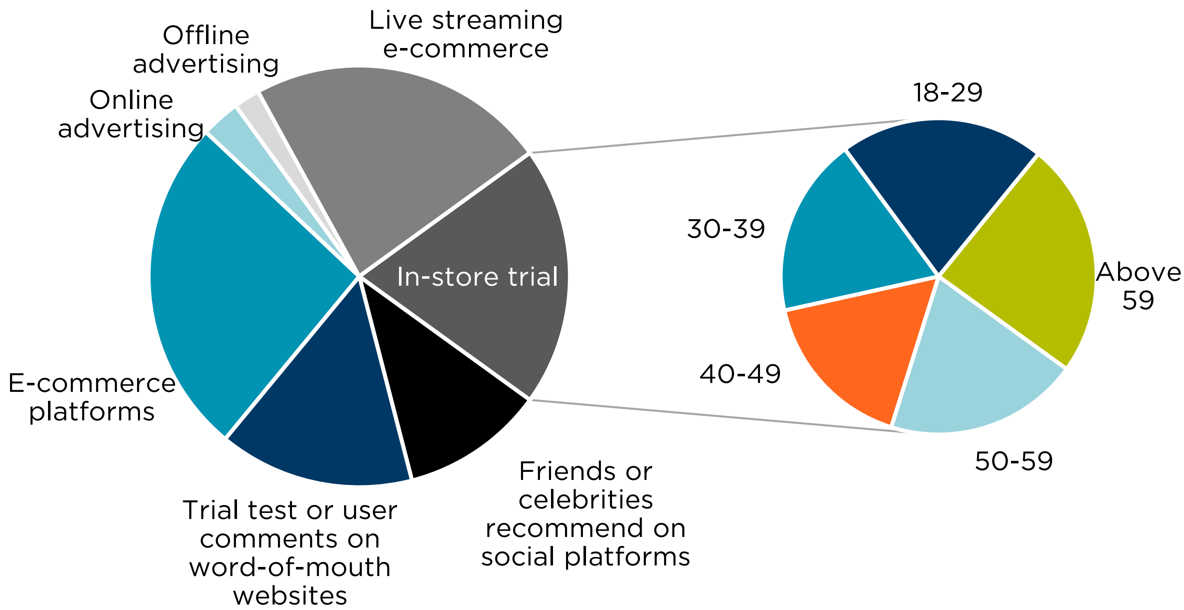


Note: 1 - Very unimportant; 2 - Unimportant; 3 - Of medium importance; 4 - Important; 5 - Very important.
Source: Cushman & Wakefield Research

With the popularity of short videos and live streaming, the clustered-city middle class in China now have more diversified channels to get product information. According to Cushman & Wakefield Research, the clustered middle class gains product information to make purchasing decisions by e-commerce platforms, live streaming e-commerce, in-store trials or user comments on word-of-mouth websites. It is noteworthy that live streaming e-commerce has become one of the main channels for Chinese clustered-city middle class consumers to gain product information and make purchasing decisions in recent years, as TikTok and Snack Video have transformed from short video social media platforms to a "short video + live streaming" model (Figure 11).

Figure 11:

The channels that clustered-city middle class consumers in China gain product information and make purchasing decisions from (2023)



Source: Cushman & Wakefield Research

Meanwhile, although clustered-city middle class Generation Z consumers have grown up in the Internet era, compared with the 30-39 and 40-49 age group consumers, this Gen Z group in China prefers to gain product information and make purchasing decisions by visiting bricks-and-mortar stores. The main reasons for this phenomenon are:

1. The clustered-city middle class Gen Z consumer group in China enjoys life more. They spend more time shopping, dining, pursuing entertainment, socialising and relaxing in shopping centres or shopping streets;

2. While pursuing fashion and personalisation, clustered-city middle class Gen Zs have higher requirements in regard to their shopping experience. By creating fashionable and interesting shopping scenes, shopping centres and shopping streets bricks-and-mortar retail can meet the experience needs of the younger generation.

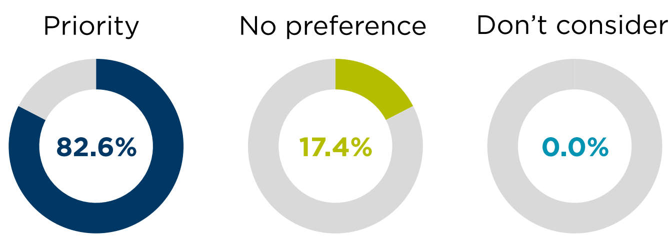
The return of Chinese traditional culture

With the development of the economy, people in China are beginning to re-examine the value of their own culture and are gravitating to "Guochao" or national trend goods and products. According to Cushman & Wakefield Research, 93% of clustered-city middle class consumers in China prefer to pay for goods and services which exemplify Chinese culture, traditional Chinese skills and Chinese technology (Figure 12).

What's more, according to Baidu, from January to April 2023, young people in China aged 20-29 and 30-39 were most concerned with the topic of the "Guochao" trend, accounting for 40.2% and 29.7%, respectively, of all searches using the word "Guochao" (Figure 13).

Figure 12:

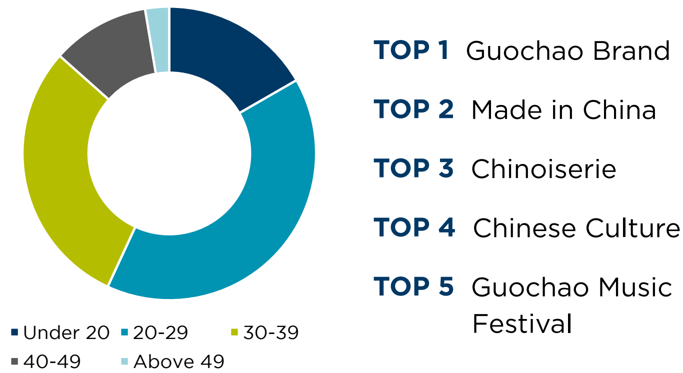
Chinese clustered-city middle class consumers' attitude towards goods and services associated with Chinese culture (2023)



Source: Cushman & Wakefield Research

Figure 13:

"Guochao" search and popular "Guochao" search topics on Baidu (January to April 2023)



Source: Baidu, Cushman & Wakefield Research

Lastly, by embracing the "Guochao" trend, international consumption centre cities will place themselves in a better position to combine the spirit of the new era values and traditional Chinese culture with product design and commercial space layout to enable their Chinese clustered-city middle class consumers to find a "spiritual fit".

The provincial city youngsters

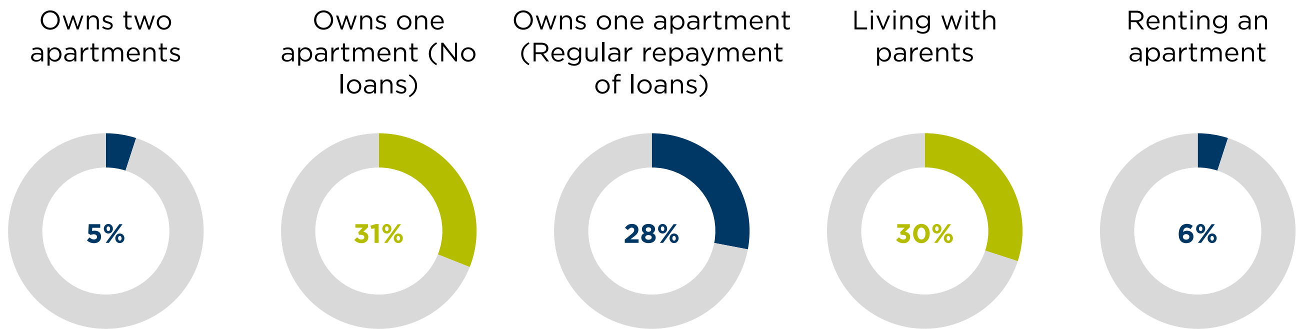
Provincial city youngsters refer to a group of young people from third- and fourth-tier cities, born in the 1980s and 1990s, who have received a basic education and have a decent job. According to the National Bureau of Statistics, the number of provincial city youngsters in China reached 227 million in 2019. Provincial city youngsters have become a new force in China's consumer scene and with transportation infrastructure continuing to be developed and improved, this consumer group will be of key significance as they increasingly travel to international consumption centre cities in China to consume.

High potential for consumption

Although the income level of provincial city youngsters is not as high as that of youngsters in big cities, they have a relatively lower cost of living, less pressure on mortgage payments and more discretionary assets for consumption (Figure 14). Moreover, the working environment of provincial city youngsters is less of a rat race. They have more time and energy to spend with their family, friends, and on entertainment.

Figure 14:

The housing situation associated with provincial city youngsters in China (2023)



Source: Cushman & Wakefield Research

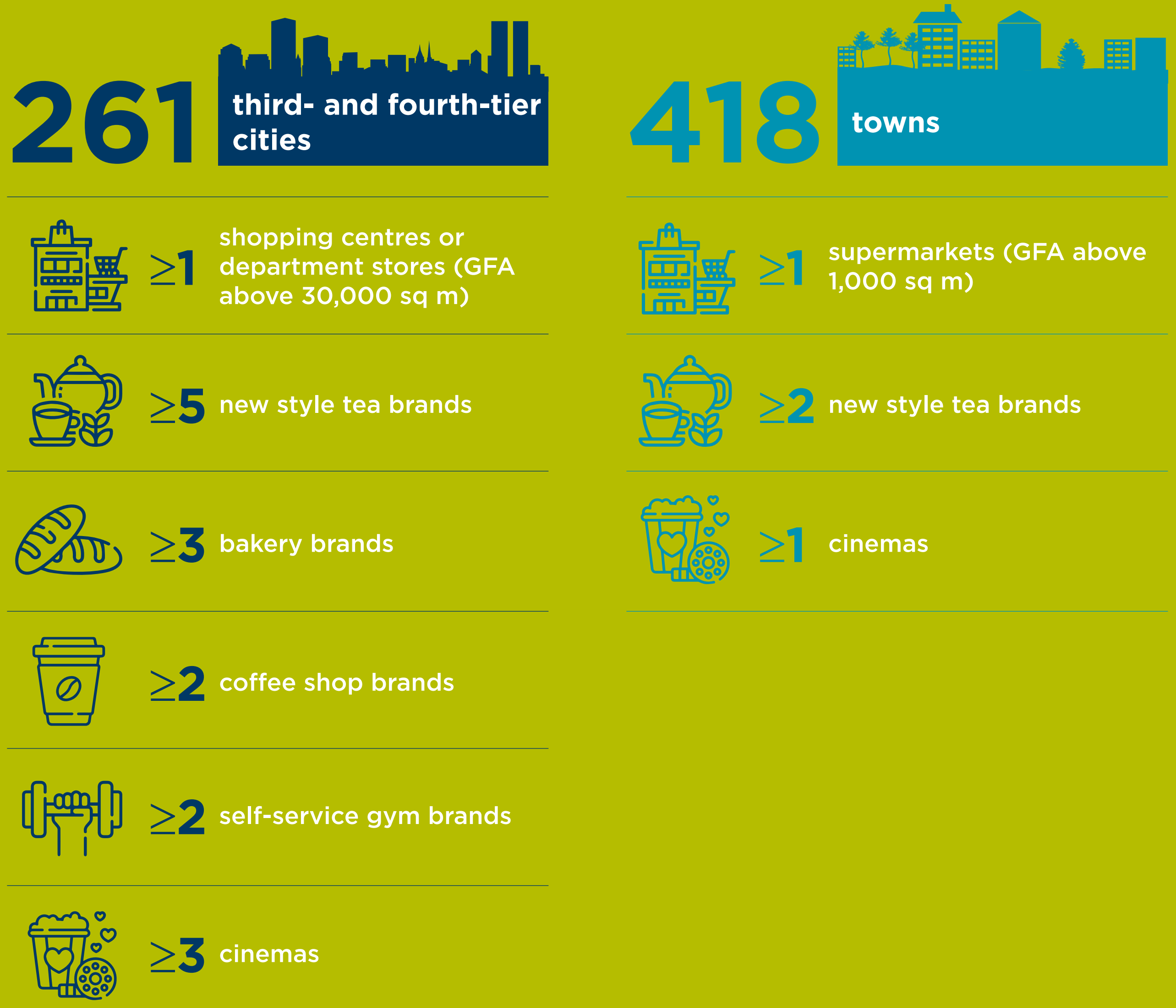
Meanwhile, new media such as TikTok, Snack Video, Bilibili, Little Red Book, WeChat etc., constitute the main social media platforms used by most people in China, allowing individuals to have equal space and voice when expressing their opinions. New media has subsequently narrowed the gap between different regions, ages and class in terms of the consumption habits between urban and rural youngsters.

In the context of less economic and workplace pressure, the development of the Internet and modern logistics in China has shortened the gap between information dissemination and purchasing channels, allowing provincial city youngsters to have more consumption potential. Subsequently, the demand for new consumer brands and innovative entertainment activities among provincial city youngsters is increasing.

The consumption upgrading of provincial city youngsters has created new business prospects and new development opportunities for retailers and landlords of shopping centres in China – both in international consumption centre cities as well as in the hometowns of provincial city youngsters – be they smaller second-, third- or fourth-tier cities. According to partial data, from 261 third- and fourth-tier cities, each have at least one shopping centre or department store (with a GFA above 30,000 sq m), five or more new-style tea brands, three or more bakery brands, two or more coffee shop brands, two or more self-service gym brands and three or more cinemas. 418 towns have supermarkets (with GFA above 1,000 sq m), each small city has two or more new style tea brands and one or more cinemas (Figure 15).

Figure 15: Retail in China's third- and fourth-tier cities and towns (April 2023)

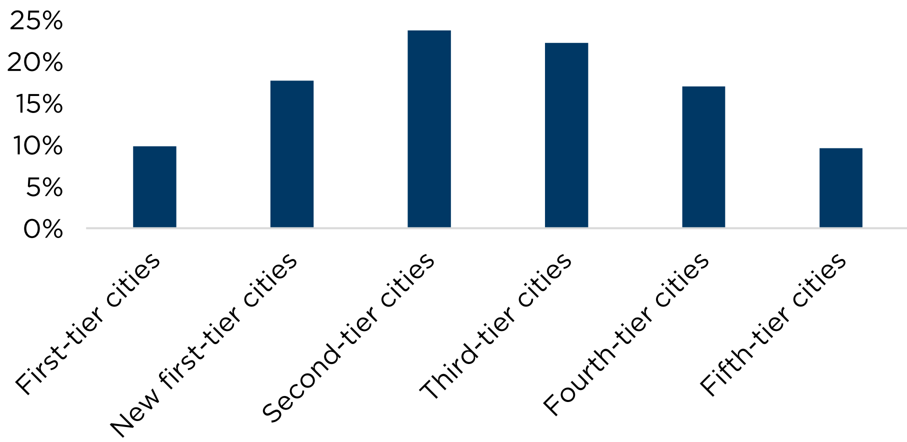
Source: Cushman & Wakefield Research



Moreover, according to Canyin88.com, the number of new-style tea stores in second- and third-tier cities account for the highest percentage, reaching 23.7% and 22.2%, respectively, surpassing the percentage of first-tier and new first-tier cities, while the total number of stores in second-tier cities and below accounted for more than 70% (Figure 16).

Figure 16:

Distribution of new-style tea stores in China (2022)

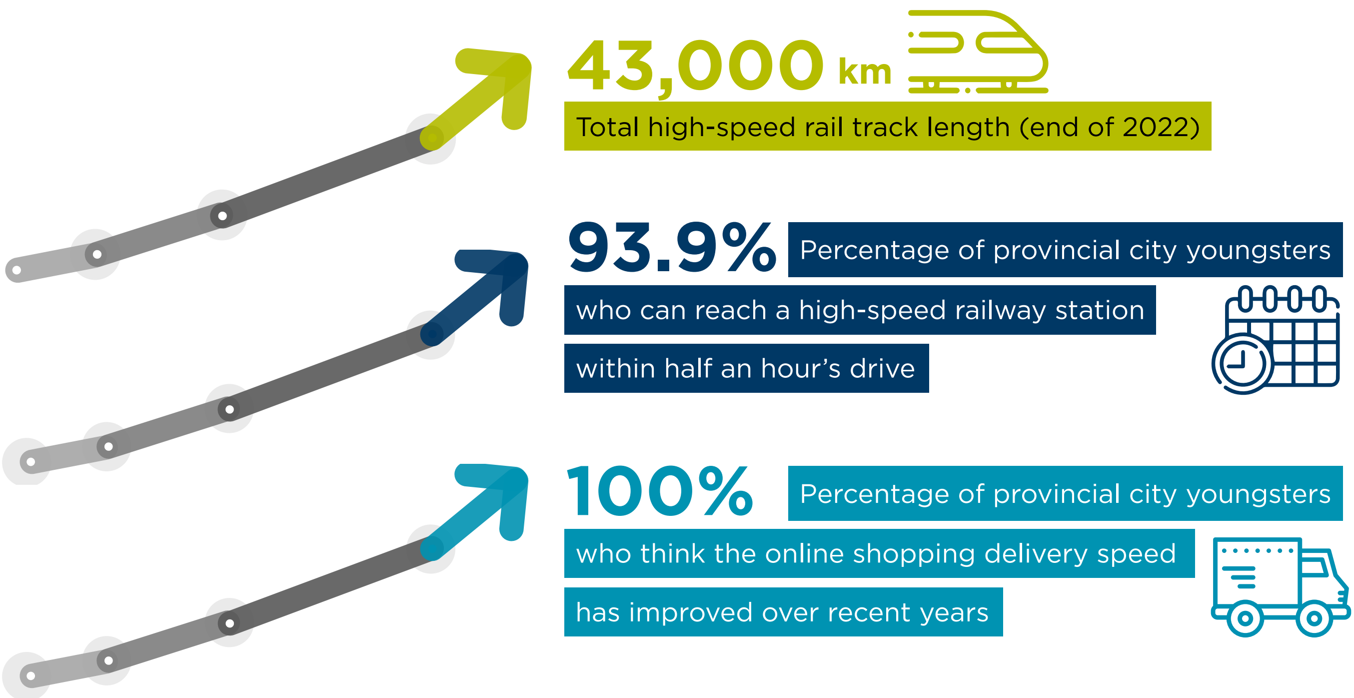


Source: Canyin88.com, Cushman & Wakefield Research

Furthermore, with the improvement in transportation, logistics and warehousing infrastructure in third- and fourth-tier cities, provincial city youngsters can easily and quickly travel to first- and second-tier cities and even international consumption centre cities for cultural consumption and to buy national and even global goods. By the end of 2022, the total track length of high-speed railway in China reached 43,000 km (Figure 17). 93.9% of provincial city youngsters said they could reach a high-speed railway station within half an hour's drive. What's more, from a logistics point of view, 100% of provincial city youngsters surveyed thought the online shopping delivery speed had improved significantly when compared to the situation three years ago.

Figure 17:

Improvement in transportation and logistics in China



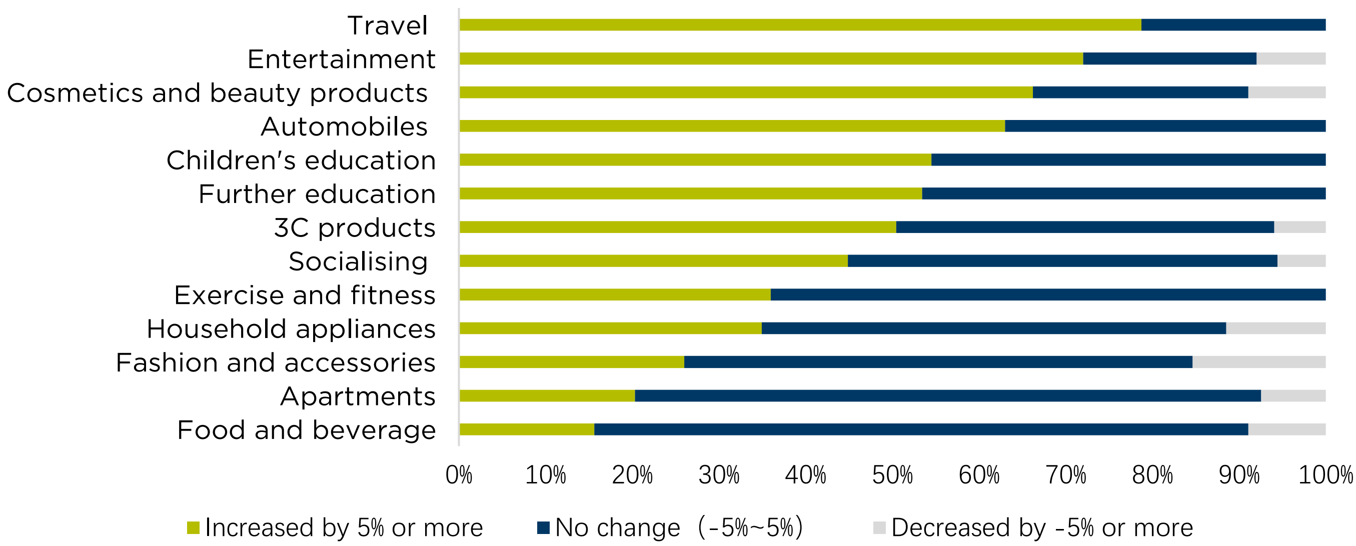
Source: Qiaqa.com, Cushman & Wakefield Research

Increased demand for spiritual consumption

In terms of consumer demand, more than 54% of provincial city youngsters in China plan to increase their spending on travel, entertainment, cosmetics and beauty products, automobiles and children's education. Provincial city youngsters, like the clustered-city middle class, are more willing to pay for spiritual consumption such as travel, entertainment, children's education, and further education. Unlike the clustered-city middle class, the consumption demand for cosmetics and beauty products, automobiles and 3C products among provincial city youngsters continues to expand (Figure 18).

Figure 18:

Changes in provincial city youngsters' willingness to spend in major consumption sectors in China over the past three years (2021 and 2023)



Source: Cushman & Wakefield Research

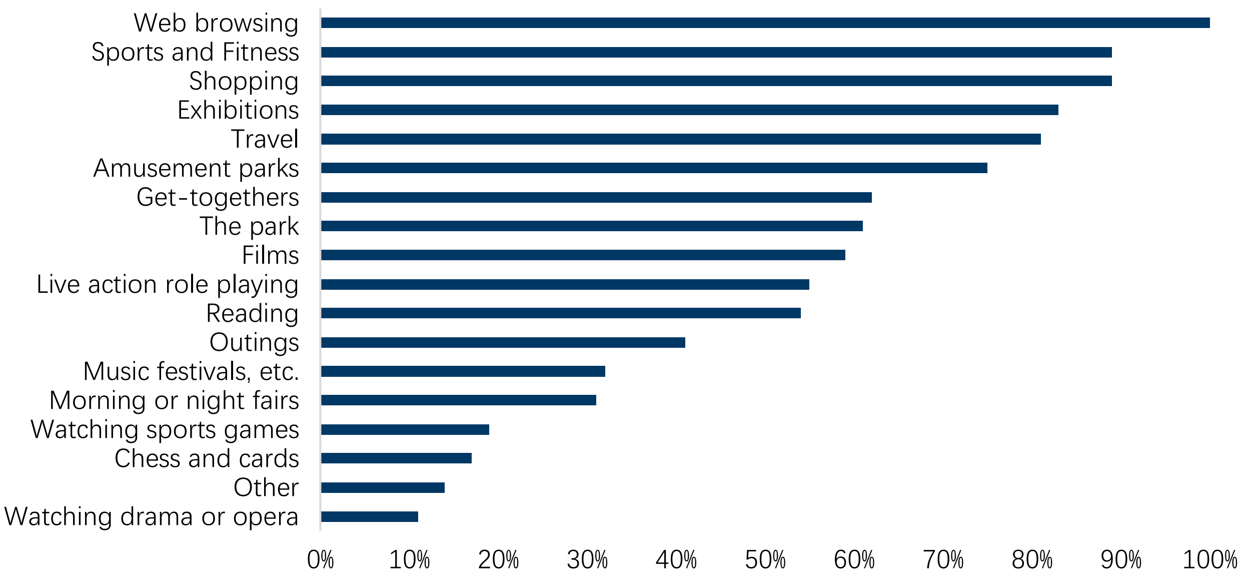
Unlike first- and second-tier cities with large migrant populations, the population in third- and fourth-tier cities and small cities is mainly composed of local residents. Provincial city youngsters generally live in the same city or region as their parents and have closer relationship with their families and friends. On weekends or holidays, 96% of provincial city youngsters go shopping with family and friends. Moreover, 92% of provincial city youngsters will hold get-togethers with family and friends.

In addition, the entertainment facilities such as exhibition halls, theatres, gymnasiums and amusement parks in third- and fourth-tier cities are not as diverse as those found in first- and second-tier cities (Figure 19).

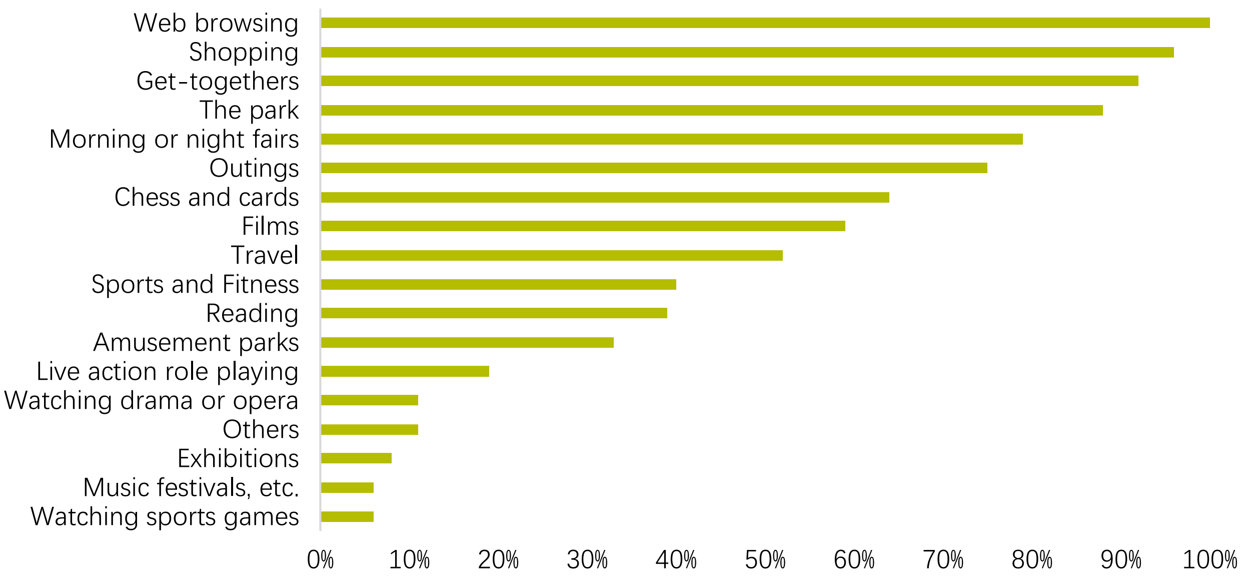
Figure 19:

Major modes of entertainment for the younger generation in China (2023)

Youngsters in large cities



Youngsters in small cities



Source: Cushman & Wakefield Research

All in all, the continued expansion in consumption demand driven by provincial city youngsters will be a force to support consumption in China in general in the future. As such, ahead, international consumption centre cities in China should increasingly continue to look at new means and ways to position their retail offering to accommodate the purchasing needs of this important demographic group.

The “silver surfers”

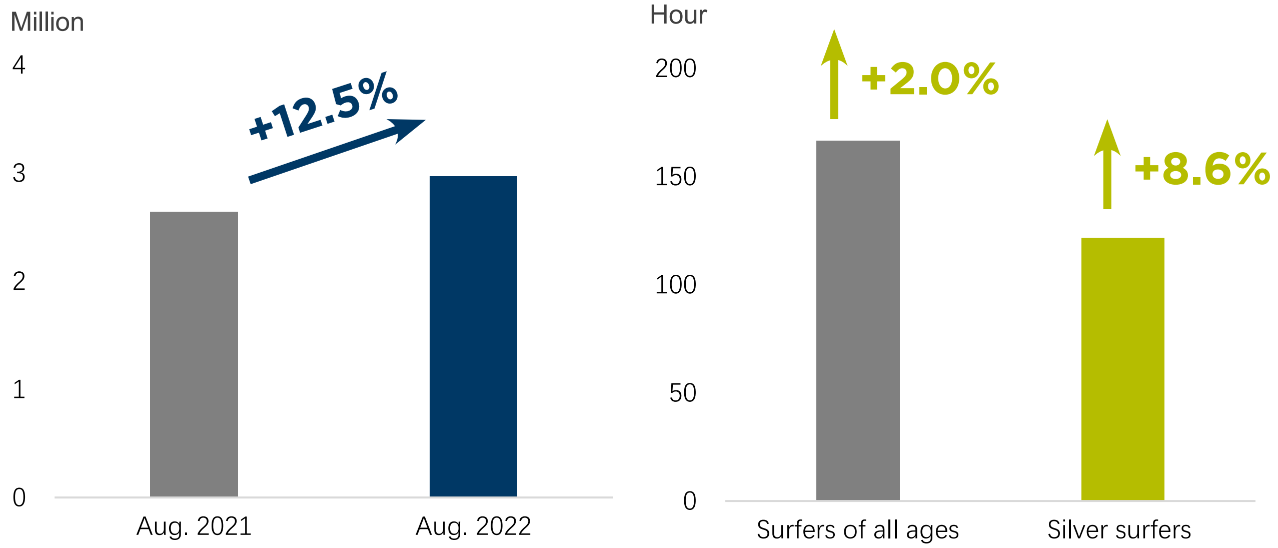
According to data from the National Bureau of Statistics, the population aged 50 and above has reached 487 million in China. The “silver surfers” refer to people over the age of 50 who frequently use the Internet. Affected by the Internet, “silver surfer’” consumption behaviour in China is undergoing quite a change and international consumption centre cities in the country will need to continually adapt to these changes to capture any new business opportunities this demographic group might present.

The force of online consumption

With the popularisation of the mobile Internet and the advancement of elderly-oriented digital products, elderly people are adapting well to digital life in China. Social media and online shopping are no longer the domains of solely the younger generation. More and more elderly people are learning to use small programmes such as short videos, WeChat, mobile payment, online shopping, and online medical treatment. According to the “2022 Silver Economy Report”, in August 2022, the active monthly “silver surfers” in China was 297 million, up 12.5% y-o-y and their average monthly mobile usage time was 121.6 hours, up 8.6% y-o-y (Figure 20).

Figure 20:

The scale of the “silver surfers” and per capita mobile usage time per month in China (August 2022)



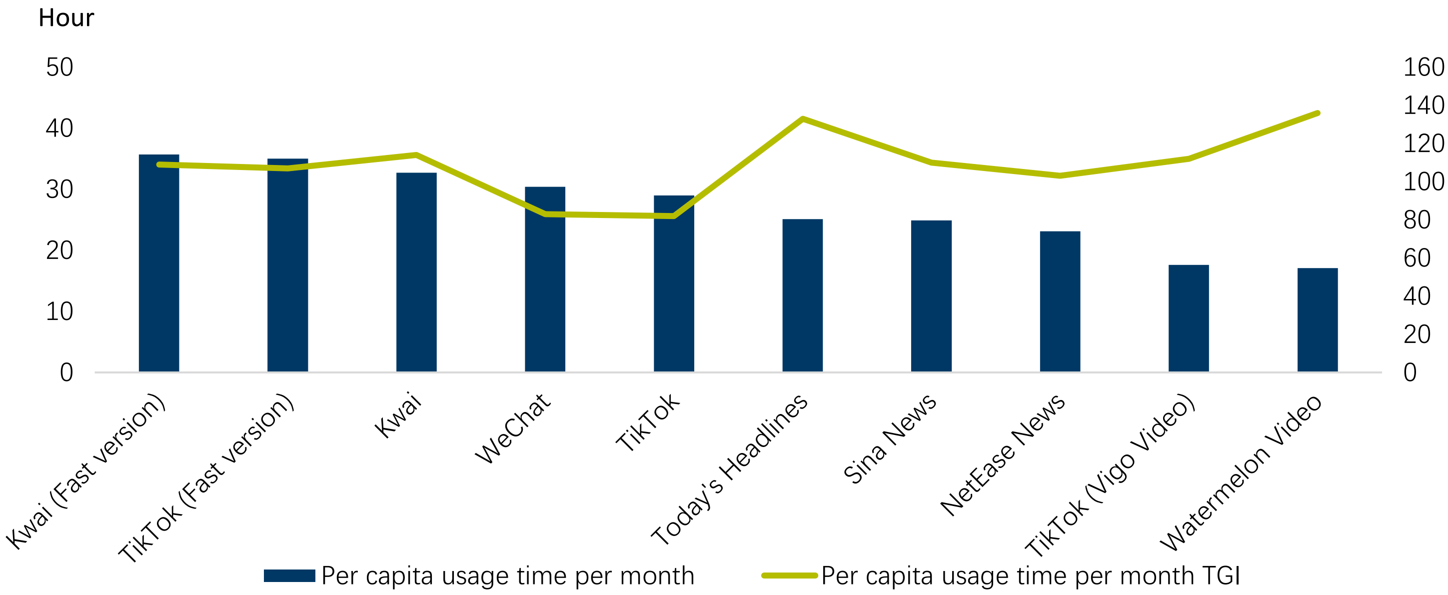
Source: QuestMobile, Cushman & Wakefield Research

People in China can publish content on short video platforms such as TikTok, without complicated editing skills. The elderly, likewise, can easily create their own content on the platform. Short video platforms now provide new tools for the elderly to obtain consultation, socialise and express themselves. They also strengthen the connection between the elderly and other generations. Therefore, short video platforms such as TikTok and Snack Video have become the most popular small programmes for the elderly in China (Figure 21).

Figure 21:

Top 10 APPs used by "silver surfers" per capita per month in China (August 2022)

Type	Short video	Short video	Short video	Instant messaging	Short video	News	News	News	Short video	Short video



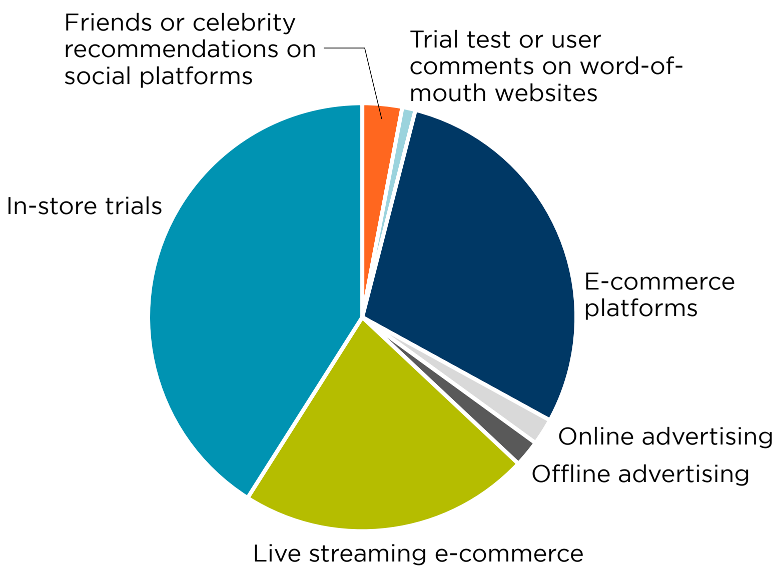
Note: Per capita usage time per month TGI: Per capita usage time per month of an APP / Per capita usage time per month of all the APPs in the target population * 100.

Source: QuestMobile, Cushman & Wakefield Research

Meanwhile, in order to make online shopping more convenient for the elderly, some e-commerce platforms have adopted an elderly-oriented business APP operating model. Elderly people now only need to switch to the elderly operating model on the business APP to zoom in on the page, input text through voice, and gain services via the manual customer service platform. At the same time, the elderly business APP working model has also added functions such as the buying of vegetables and medicine online. Consequently today, e-commerce platforms and live streaming e-commerce have become the main channels that elderly consumers in China obtain product information and make purchasing decisions from (Figure 22).

Figure 22:

The channels that elderly consumers in China use to obtain product information and make purchasing decisions (2023)



Source: Cushman & Wakefield Research

Nowadays, online shopping conducted by elderly people in China has expanded from daily necessities to purchasing improved and upgraded products such as mobile phones, collectibles, maintenance products, and smart small appliances.

Young consumer mentality

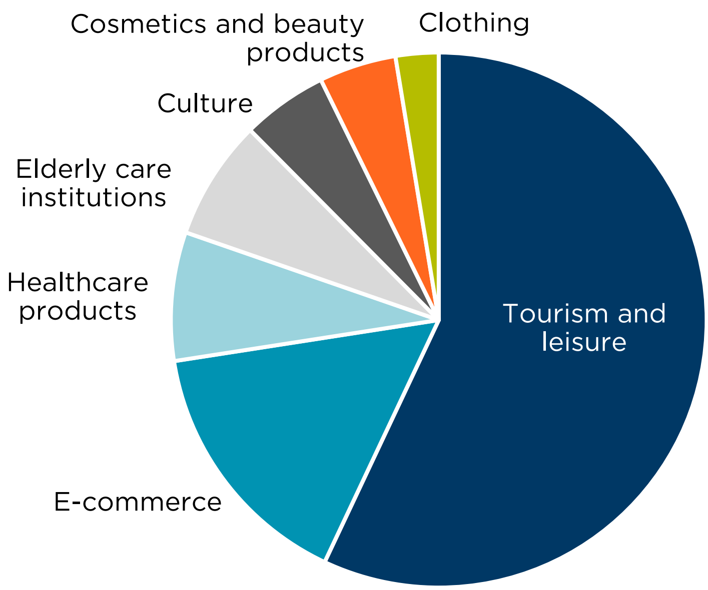
The "silver surfer" demographic group has benefited from China's reform and opening up and many in this demographic group have attained a sizeable pot of savings, and good standard of living. Additionally, during their retirement period, China's medical and pension security levels have continued to improve. Therefore, given their financial stability, many "silver surfers" in China are now a position where they have time to learn and understand the emerging trends and the latest things in China and how these could be incorporated into their daily lives. Today, playing short videos, playing online games, raising pets, traveling, camping, and checking online celebrity stores and locations are no longer the exclusive entertainment ways of the young. With an open mindset, more and more elderly people are learning and trying new things.

In the consumption structure of the elderly, travel and leisure account for a large proportion. According to askci.com's research, travel and leisure account for as much as 57% of their spending. Meanwhile, the proportion of elderly spending on e-commerce, healthcare products and elderly care institutions is 16%, 8% and 7%, respectively (Figure 23). Moreover, according to data from the China Elderly Council, from 2016 to 2020, the average annual growth rate of Chinese elderly travel consumption reached 23%, exceeding RMB700 billion in 2021. Consequently, the elderly have certainly become an important consumer group in China's tourism market.

Consequently, more retailers, landlords of shopping centres, and entertainment enterprises, especially in international consumption centre cities, will consider the characteristics of elderly people's daily routines, habits and customs, to provide more types of elderly-oriented products and services to their existing customer service repertoire.

Figure 23:

The consumption structure of the elderly in China (2022)



Source: Askci.com, Cushman & Wakefield Research

Looking ahead, the emerging new consumer demand and huge consumption potential of the clustered-city middle class, provincial city youngsters and the "silver surfers" will drive the upgrading of China's retail market, including retail market expansion in the respective international consumption centre cities, thereby supporting the long-term growth of China's economy.

Part 3

IN A RACE TO RAMP UP POTENTIAL CONSUMPTION

Supported by burgeoning clustered-city middle class, provincial city youngsters and "silver surfer" consumption, international consumption centre cities can go a long way to activate and drive consumer demand. These select group of cities in China will also focus on a number of important areas to improve retail-related business prospects, including the following:

The urban "third space" – An expanding new consumption scene

In the 1970s, American sociologist Ray Oldenburg put forward the concept of the "third space" from the perspective of urban and social research. He referred to the place where people lived as the "first space", the place where people spent a lot of time working as the "second space", while the "third space" was an informal public gathering place outside of his place of residence and work, where people could relax, gather, and socialise.

In China, the rapid development in urbanisation and the transformation of people's consumption behaviour and habits have made consumers in China highly value the space that a "third space" provides outside of home and their work.

Humanising urban "third spaces"

The urban "third space" is not only a space for local residents as they go about their daily lives and as they pursue leisure, entertainment and social activity, but it is also an important space for tourists to experience the culture and life of a local area.

The local government, real estate investors, developers, and service providers in international consumption centre cities in China are focusing on upgrading the commercial blocks and urban public spaces to become places that aim to generate all-inclusive citizen-friendly "third spaces" that are also economically sustainable and promote urban transformation and development.

Great places (and spaces), according to Project for Public Spaces are:

- **Accessible;**
- **Comfortable and have a good image;**
- **Activity rich, and;**
- **Sociable places...**

...where people want to recurrently spend time and experience, and these are considerations which have to be borne in mind by international consumption centre cities when looking to further augment consumption in their cities (Figure 24).

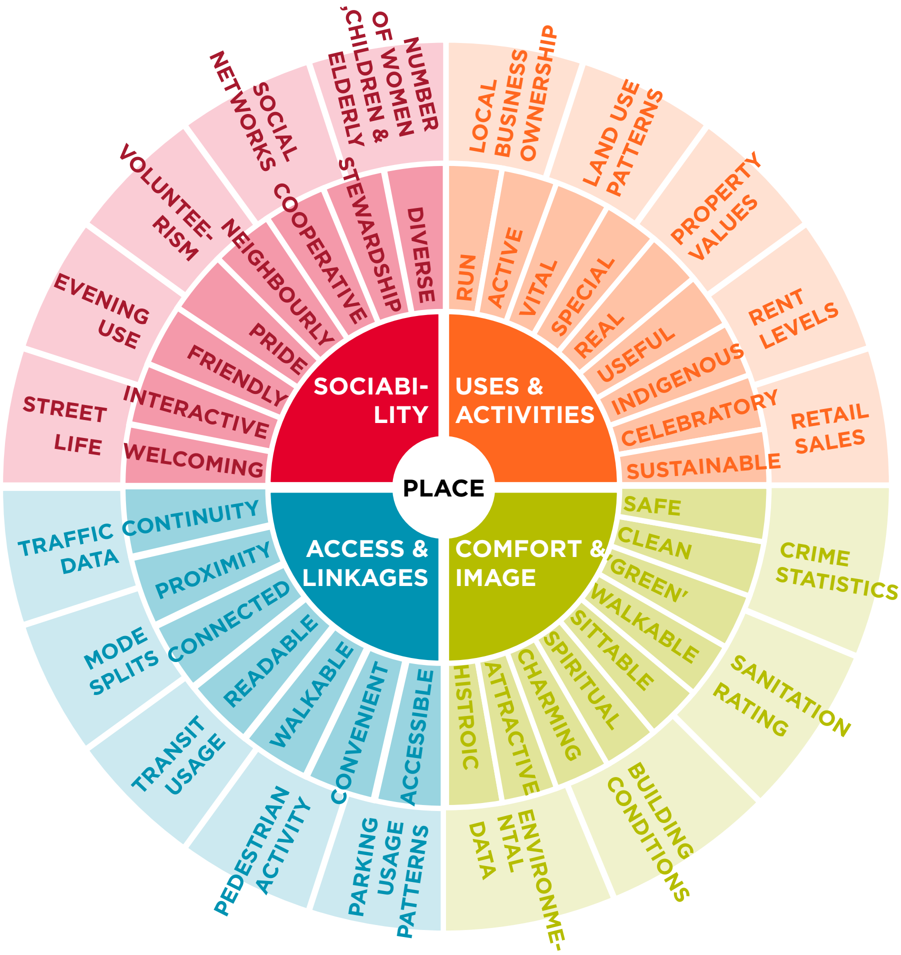


Figure 24:

Four constituents for a great place

Key Attributes

Intangibles

Measurements

Source:
Project for Public Spaces, Cushman & Wakefield Research

Accessibility

Place accessibility is about links to the surroundings, including the ocular connections. A great urban public space is easy to travel to and back from (either on foot, by public transport or by car), effortless to go into and out of, and simple to walk around and experience. It is planned and developed in such a way that one can view most of the activities going on from afar and from nearby.

Comfort and image

A space that is clean, secure, restful and relaxing and appears tempting to experience is likely to be a popular destination with visitors and citizens alike. The availability of a variety of seating is crucial to success. People are attracted to spaces that provide a selection of seating arrangements and a good number of seats. In these places, there will always be a place to sit that either fully or, at least, partially suits a visitor's/citizen's needs at any given time.

Activity

A choice of activities is essential to what makes a great place and the experience to be had. A good range of activities to do and participate in gives people a strong motive to visit a place, not just once but time after time. What's more, sensibly chosen activities will further assist a place by luring a wider cross-section of people, as well as people at different times of the day. For example, a kindergarten activity will entice young children and parents in the morning, a five-a-side soccer court will appeal to older students after school and a live band will pull in adults in the evening.

Sociability

A place's sociability should never be under estimated. It can be challenging for a place to achieve great sociability. But, when achieved it soon becomes the go-to locality for people to see friends, say hello to neighbours, intermingle with visitors and generally have a pleasurable social experience.

The urban retail "third space" – A representation of local culture and society

Retail property plays a major role in the success of urban "third space". According to incomplete statistics, there are more than 2,100 pedestrian streets with a retail area of more than 20,000 sq m in China. The total inventory of pedestrian streets now exceeds 100 million sq m. Meanwhile, there are over 6,835 retail properties with a GFA of over 30,000 sq m in China. The total inventory of retail properties now exceeds 540 million sq m (Figure 25).

Today, continually revitalising existing commercial retail property assets and exploring differentiated development models have become common missions for local governments, real estate investors, developers, and service providers in China. In addition to accelerating the construction of world-class commercial districts, (with optimised "third space") international consumption centre cities in China are also actively promoting the construction of urban cultural commercial spaces (with "third spaces") to build international, yet local, citizen-friendly consumption cities.

Figure 25:

The current stock of pedestrian streets and retail properties in China (April 2023)

2,100 pedestrian streets, where retail space is above 20,000 sq m;

The total inventory of pedestrian streets now exceeds **100 million** sq m.

6,835 retail properties, where the GFA is above 30,000 sq m;

The total inventory of retail properties now exceeds **540 million** sq m.

Source: Cushman & Wakefield Research

Most cities in China have a rich history stretching back hundreds, if not thousands, of years in China. This long history has created highly regional consumption characteristics and habits among the various cities within the country. According to Chinese Urban Commercial Vitality, given the varied history and culture, there is a clear differentiation in the types of urban space, including "third spaces", between cities in China. For example, the proportion of art and entertainment facilities in urban "third spaces" in Quanzhou and Shanghai is higher than the norm, while in Guiyang, Lanzhou, and Chongqing, urban "third spaces" are mainly developed to hold and host leisure and social activities (Figure 26).

If landlords of shopping centres and retailers in international consumption centre cities in China want to quickly attract consumers and increase their stickiness to the locality, they must also innovate and create new business models and culturally and socially distinctive "third space" retail spaces based on the consumption characteristics and living habits of local consumers.

Figure 26:
Quadrant map of urban "third space" types in China

Source: 2020 Chinese Urban Commercial Vitality, Cushman & Wakefield Research

The smart urban retail “third space”

At this stage, Chinese cities are vigorously promoting the digital transformation of commerce. Digital technology has brought many new positive shopping experiences to consumers in the country.

The Guidelines for the Construction of Smart Business Districts (Trial) issued by the Ministry of Commerce proposes that some cities carry out pilot demonstration projects centred on smart business districts, strengthen the construction of infrastructure such as the mobile Internet and wireless networks, and promote the application of new technologies such as the Internet of Things (IoT), big data, cloud computing, virtual reality (VR) and artificial reality (AR).

These smart business districts will include a data analysing and processing centre to optimise design, planning and operations, be it for a whole retail area, an individual retail shopping centre, an individual shop or an individual retail-related “third space”. A variety of smart services will also be offered, including smart area shopping guides, promotion and information (often based on consumer product/service preferences), smart parking lots, smart store ground navigation, smart crowd congestion alerts, smart online stores, smart payment and smart purchased product delivery.

Meanwhile, retail property, including retail-related “third spaces”, will be able to optimise their security, energy consumption management, facility and equipment management, customer flow dynamics and customer shopping behaviour profiles for better overall business outcomes.

In January 2023, the Ministry of Commerce announced the first batch of national demonstration smart business districts and store lists, consisting of 12 national demonstration smart business districts and 16 national demonstration smart stores (Figure 27).

All things considered, humanising urban space, incorporating history and culture into urban space and the digitisation of urban space in China will promote the optimisation and upgrading of the commercial retail areas and properties in China, including urban retail “third spaces”, which will only portend to the further development of international consumption centre cities in the country.

Figure 27:

National demonstration smart business districts and stores (2023)

<table>
<tr><th>Number</th><th>Provinces and cities</th><th>National demonstration smart business districts</th><th>National demonstration smart stores</th></tr>
<tr><td>1</td><td>Beijing</td><td>Sanlitun</td><td>South Area of Taikoo Li Sanlitun</td></tr>
<tr><td>2</td><td>Tianjin</td><td>Florentia Village</td><td>CREATIVO</td></tr>
<tr><td>3</td><td>Shanghai</td><td>Yu Garden</td><td>BFC</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">Jiangsu</td><td rowspan="2">Xinjiekou</td><td>Nanjing Golden Eagle International Shopping Centre</td></tr>
<tr><td>Xinjiekou Suning Yijia Flagship Store</td></tr>
<tr><td rowspan="2">5</td><td rowspan="3">Zhejiang</td><td rowspan="2">Hubin</td><td>Hubin Intime</td></tr>
<tr><td>Jiebai Plaza</td></tr>
<tr><td>6</td><td>Wulin</td><td>Hangzhou Tower</td></tr>
<tr><td>7</td><td>Anhui</td><td>Huaihe Road</td><td>Baida Drum Tower Centre</td></tr>
<tr><td>8</td><td>Shandong</td><td>Quancheng Road</td><td>Guihe Shopping Centre</td></tr>
<tr><td rowspan="2">9</td><td rowspan="3">Guangdong</td><td rowspan="2">Tianhe Road</td><td>Grandview Mall</td></tr>
<tr><td>Guangzhou Friendship Store</td></tr>
<tr><td>10</td><td>Beijing Road</td><td>Xin Daxin Shopping Centre</td></tr>
<tr><td rowspan="2">11</td><td rowspan="2">Chongqing</td><td rowspan="2">The Monument for Liberation-Chaotianmen</td><td>WFC</td></tr>
<tr><td>Raffles City Chongqing</td></tr>
<tr><td>12</td><td>Sichuan</td><td>Chunxi Road</td><td>IFS Chengdu</td></tr>
</table>

Source: National Ministry of Commerce (China), Cushman & Wakefield

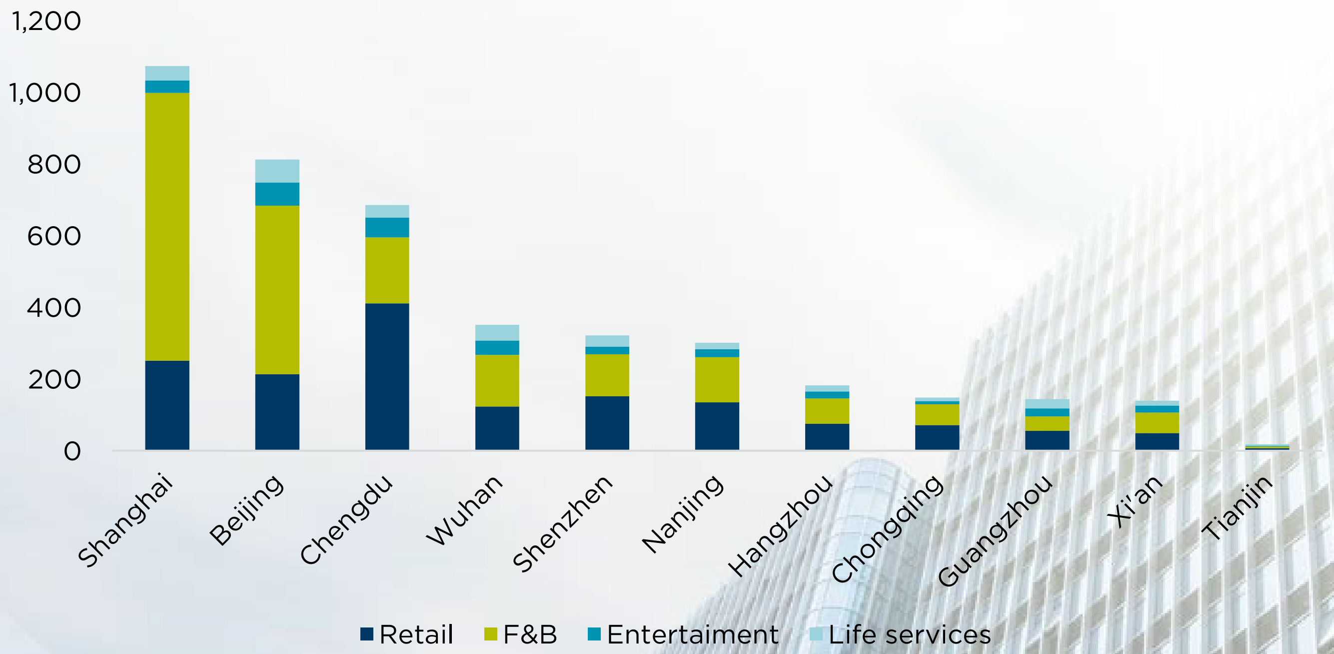
The "first store economy" – Creating a new driver for consumption

Stores that are first of their kind, in terms of the brand name, to set up in China, in a region or in a city, not only drive the formation of new consumption growth points, but also promote the general upgrading of consumption structure within the locality. Thus, to stay relevant, international consumption centre cities in China need to fully embrace the "first store economy" to unlock any emerging consumption growth potential.

In recent years, China's "first store economy" has grown rapidly. In 2022, Shanghai saw 1,073 first stores set up, Beijing 812 and Chengdu 708. Other cities in the country also enjoyed a good number of new set ups. (Figure 28).

Figure 28:

The number of first stores opened in China (2022)



Source: Winshang.com, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

China's international consumer centre cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Chongqing, and other first- and second-tier cities, have successively introduced policies to support the development of the "first store economy".

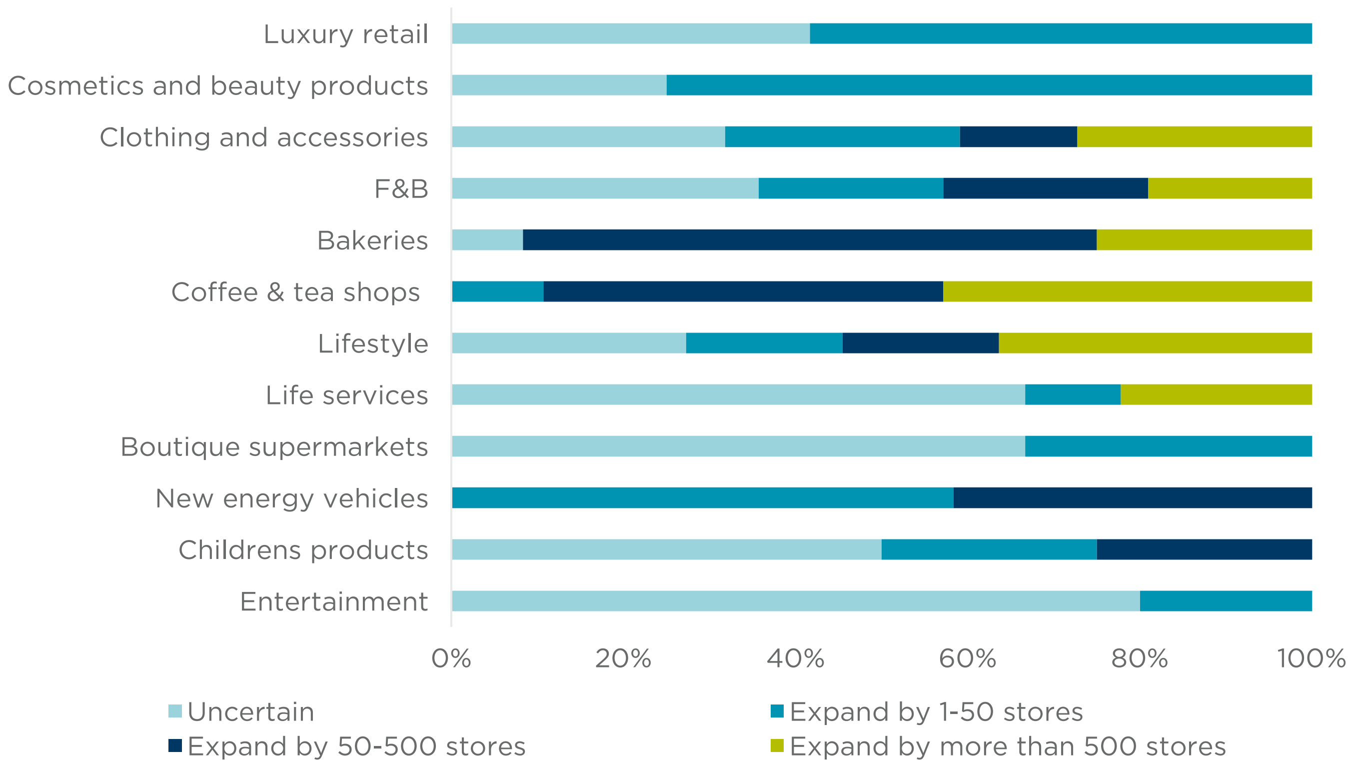
In summary, the "first store economy" policies issued thus far by the local Bureaus of Commerce in ten cities in China are as follows:

- **Incentives for first stores to locate and set up business:** Based on the different "levels" of first store, the incentive amount varies and basically lies between RMB500,000 million and RMB5 million. The standout highest incentive offered is RMB10 million for a first Asian store set up in Guangzhou;
- **Incentives for first new product release:** This incentive is around RMB1 million to RMB2 million, depending on the case;
- **Incentives for time-honoured brands to locate and set up business:** Most cities provide relatively vague time-honoured brand set up policies. However, Guangzhou and Chongqing have provided specific incentive amounts, with the maximum incentive amount offered by Guangzhou being RMB0.5 million and that offered by Chongqing being RMB1 million.

Encouraged by these policies and the positive market trends, global brands are optimistic about China's consumer market and are increasing their investment in the country. This feeling is also present and evident for the general retail market. According to Cushman & Wakefield Research, around 72% of fashion brands are planning to continue expanding their presence in China. Meanwhile, new energy vehicles and new-style tea and coffee brands will also continue to expand strongly in order to increase their market share. In terms of F&B, about 64% of F&B brands with advantages in product and business operation will maintain their expansion, while other brands plan to optimise their store layout strategy in 2023 without any location expansion plans (Figure 29).

Figure 29:

Expansion intention of brands in China (2023)



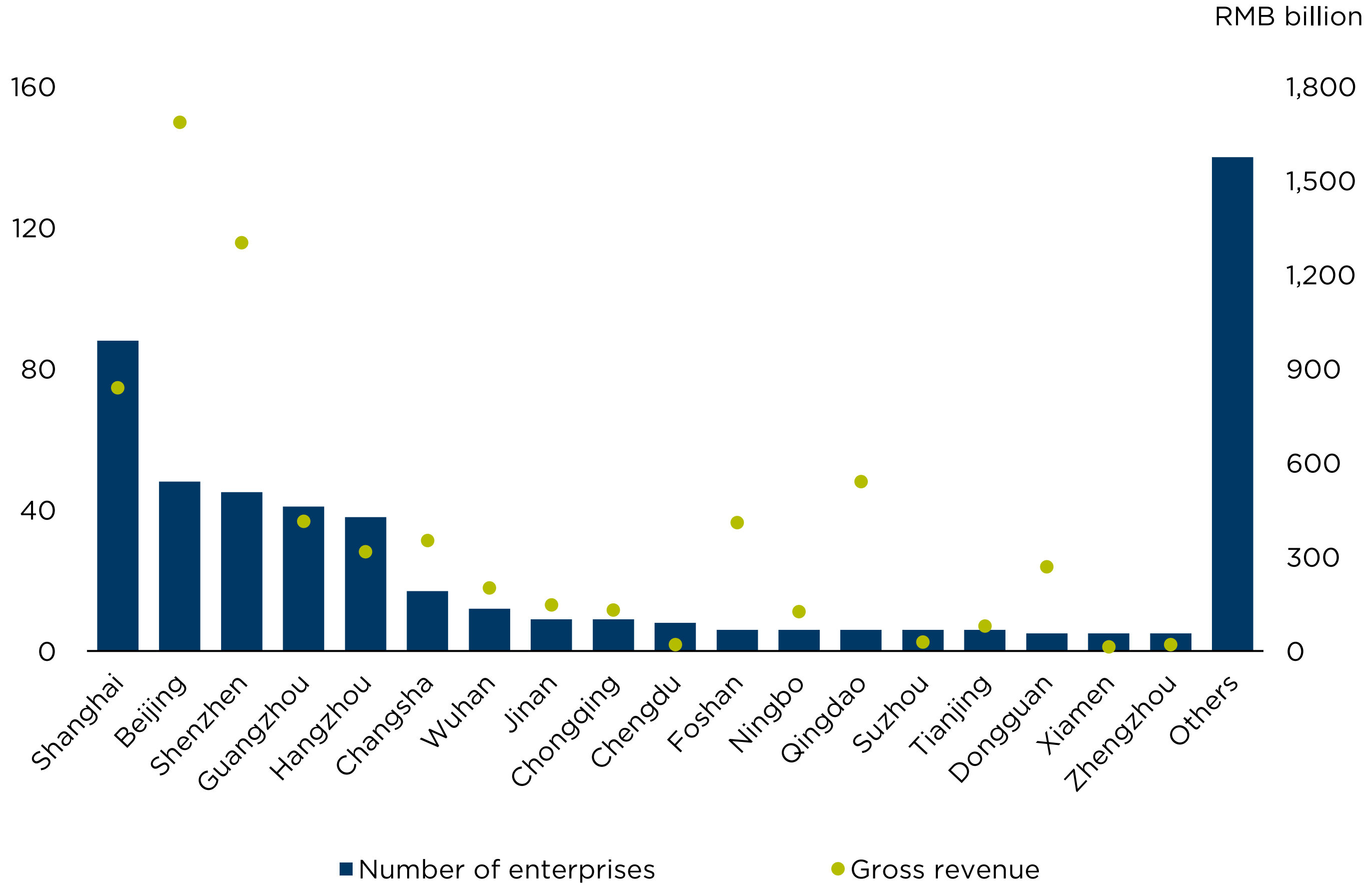
Source: Cushman & Wakefield Research

What's more, from the perspective of brand distribution in China, in 2022, Shanghai, Beijing, Shenzhen, Guangzhou, and Hangzhou, and other new first-tier cities, have been the main locations of choice for China's top 500 home market-originated consumer brands. A total of 260 home-originated brands (or 52% or this particular brand group) are now located in China's most significant commercial urban centres, which bodes well for the future development of international consumption centre cities in the country (Figure 30).

Consequently, the "first store economy" and increasingly within this economy, home market-originating first stores, will continue to be a principal factor for international consumption centre cities in China to consider when looking to further advance their retail offering and their markets in general.

Figure 30:

Distribution of mainland China's top 500 consumption brands (2022)



Source: Xinmao List, Cushman & Wakefield Research

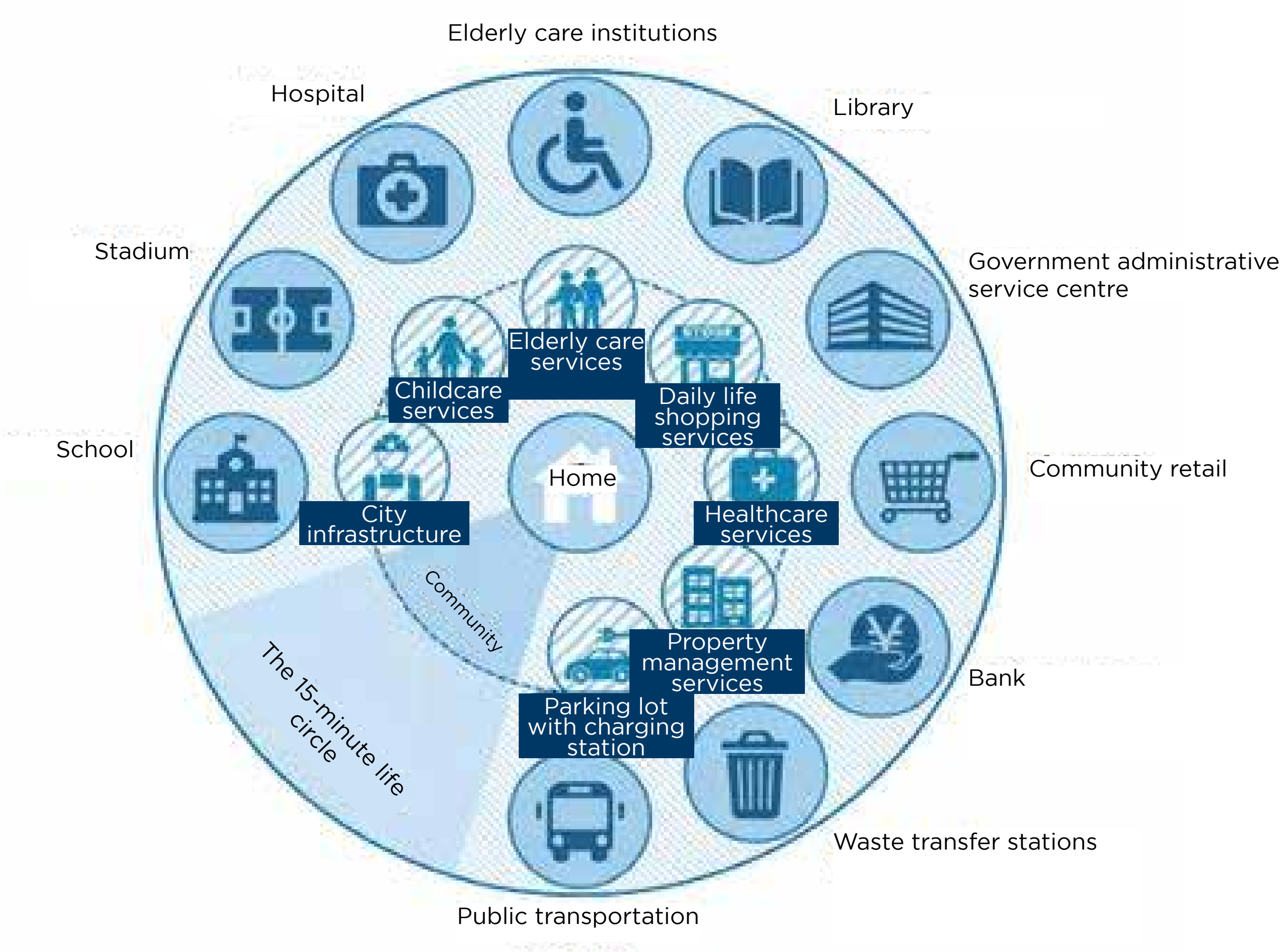
The “15-minute city” – Improving residents' liveability

With the accelerated development of urbanisation in China, the demand for convenient living among urban residents is becoming increasingly urgent.

In 2021, the Ministry of Commerce and 12 other departments jointly issued the Construction Plan for the 15-minute Life Circle, proposing to build infrastructure that can meet the basic needs of city resident in terms of their daily life and entertainment within an urban area which is walkable within 15 minutes (Figure 31).

Figure 31:

The facilities to be included within a 15-minute life circle in cities in China



Source: Ministry of Housing and Urban-Rural Development, Cushman & Wakefield Research

Community retail and digital farmer markets, as important components of 15-minute life circles or the “15-minute city” concept in China, have become increasingly popular among citizens and as such should be borne in mind when looking to further develop international consumption centre cities in the country.

Community retail

In contrast to the "one-stop" and/or experiential retailing offered by regional shopping centres, on-demand community retail is more focused on serving residents within a few kilometres, providing them with the shopping, social, entertainment and parent-child products and services for their daily life. According to Cushman & Wakefield Research, Chinese consumers have put forward higher requirements from community retail in terms of environmentally sustainable products and services, the overall shopping experience, the quality of retail-related activities, as well as general retail services (Figure 32).

Figure 32:

Consumer satisfaction with community retail features in China (2023)

Note: 1 is very dissatisfied; 2 is dissatisfied; 3 is neither dissatisfied nor satisfied; 4 is satisfied; 5 is very satisfied.

Source: Cushman & Wakefield Research

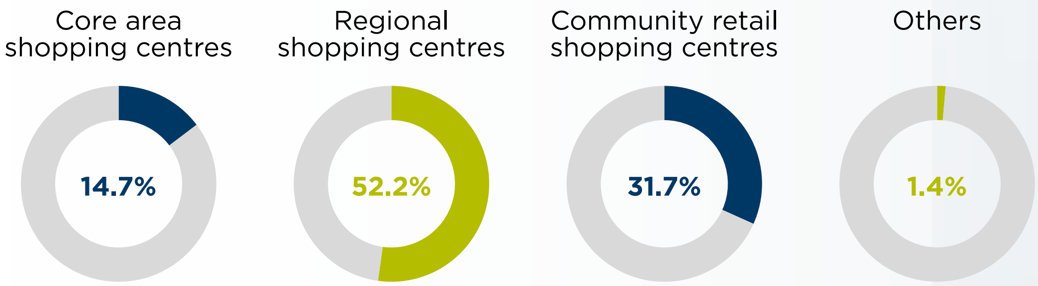
In line with the changing consumer requirements, community retail in China is continually evolving. Through the optimisation of brand mixture, design, architecture and landscaping, community retail is effectively enhancing the customer shopping experience in China. In addition to supermarkets, retail, F&B, life services and other sectors, community retail has also introduced co-working spaces and services, child-related retail and service outlets, entertainment outlets, clinics and pet service outlets to meet the various consumer wants and needs. Some successful community retail projects have even built garden terraces, roof gardens, and parent-child fun squares, for the surrounding residents.

Nowadays, on-demand community retail is not only the retail carrier to meet the daily needs of the surrounding residents, but also acts as a culture carrier for the community, by holding and hosting art exhibitions, theatrical performances, flea markets, public welfare charity events, parent-child activities and much more in multifunctional theatre/exhibition spaces in the community retail project, in the atrium of the community retail project, in piazzas and squares outside the community retail project or in other suitable spaces to be found within the community retail project. The cultural activities not only attract the surrounding residents to participate in community activities, but also improves the stickiness of regular customers, thereby ensuring a steady customer footfall flow to the community retail shopping centre.

The growing importance of community retail in China is also exemplified by the future retail project supply numbers in the country. According to statistics from Cushman & Wakefield Research, over the next three years, about 32% of the new supply in the 16 cities we track will be community retail (Figure 33).

Figure 33:

The percentage of new retail supply types in 16 cities in China (2023 – 2025)



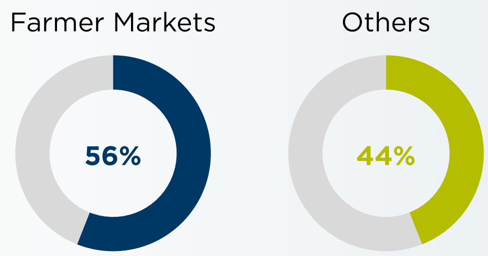
Source: Cushman & Wakefield Research

Digital farmer markets

Farmer markets are one of the essential facilities in the "15-minute city" life circle concept in China. They are an important "livelihood project" to improve the daily lives of the surrounding urban residents. According to iResearch, the farmer markets accounted for 56% of the total fresh food sold, making it the largest fresh food retail channel in China (Figure 34).

Figure 34:

Distribution of fresh food retail channels in China (2020)

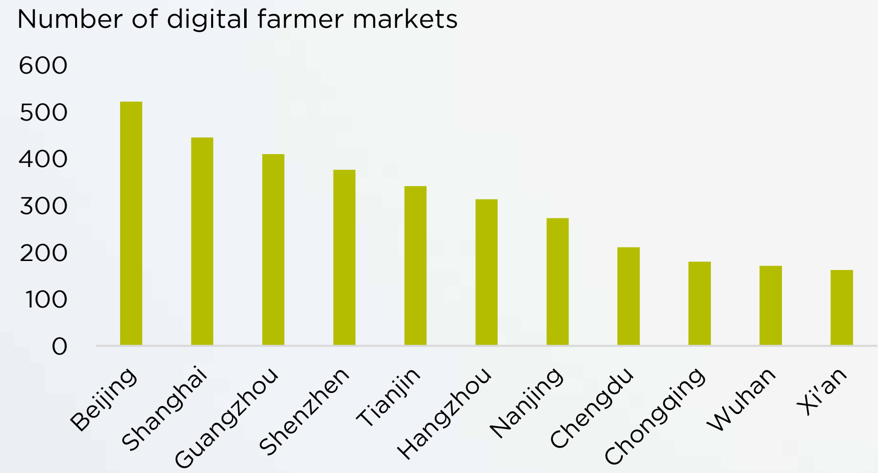


Source: iResearch, Cushman & Wakefield Research

In recent years, the central and local governments in China have introduced a series of policies to encourage the digital transformation of farmer markets. In line with these policy moves and according to the incomplete statistics, the number of digital farmer markets in China’ s first- and second-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin and Hangzhou has exceeded 3,400 (Figure 35).

Figure 35:

The number of digital farmer markets in first- and second-tier cities in China (April 2023)

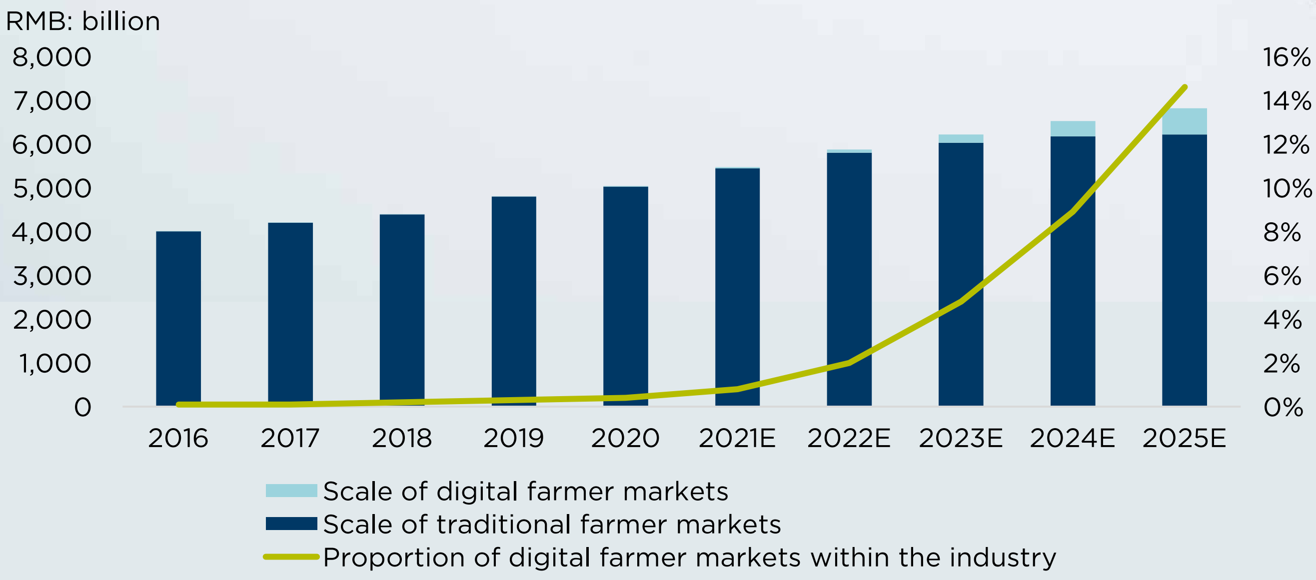


Source: Cushman & Wakefield Research

Ahead, over the next three years, the digital transformation of farmer markets will accelerate in China. iResearch predicts that the overall penetration rate of digital farmer markets will rapidly increase from 0.4% in 2020 to 15% in 2025 (Figure 36).

Figure 36:

The scale and penetration rate of digital farmer markets in China (2016 - 2025)



Source: iResearch, Cushman & Wakefield Research

"Green" consumption – Thinking sustainability

As global warming intensifies and extreme weather occurs frequently, many countries around the world have introduced various policies to promote sustainable development. In China, at the beginning of 2022, the National Development and Reform Commission issued the Plan for Promoting "Green" Consumption to comprehensively encourage the concept of sustainable consumption and help meet China's strategic goal of reaching a "carbon peak" by 2035 and attaining "carbon neutrality" by 2060. Ahead, as international consumption centre cities continue to develop in China, so any new development will have to increasing consider the idea of "green" consumption.

The "green" consumption concept

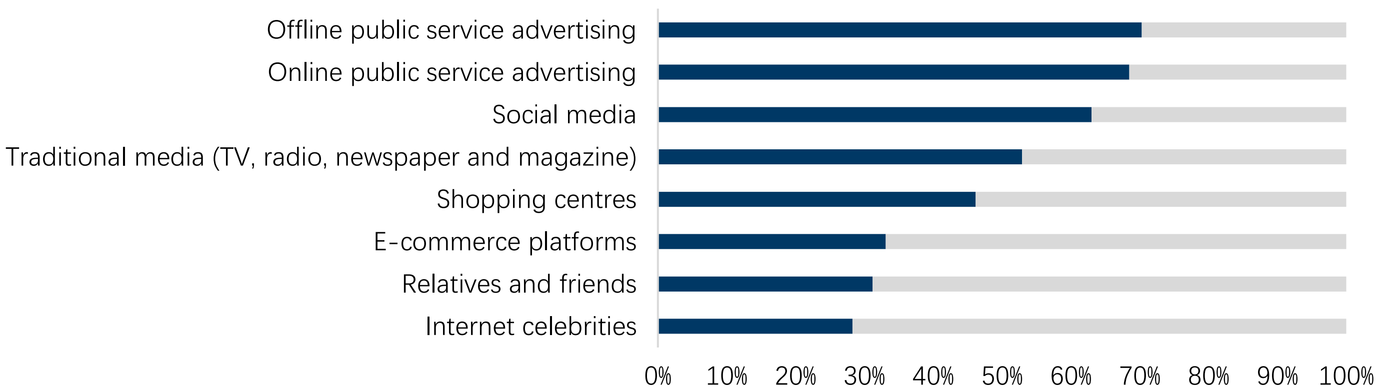
"Green" consumption mainly falls into three categories:

- **Products that are not contaminated or detrimental to public health;**
- **Products that promote environmental protection and the saving of natural resources, and;**
- **Products that can be disposed of in an environmentally friendly manner and do not contribute to environmental pollution.**

With the acceleration in urbanisation in China, carbon emissions generated from the daily living habits of and consumption by urban residents has increased over recent years. Related to this, existing international consumption centre cities have taken multiple measures to promote "green" consumption, which has enhanced the awareness of "green" consumption among a large pool of consumers in the country. According to Cushman & Wakefield Research, only 4% of consumers in China still do not understand the concept of "green" consumption. At the same time, more than half of consumers have received "green" consumption education through offline and online public service advertising, social media and traditional media (Figure 37).

Figure 37:

The channels that Chinese consumers get information from related to "green" consumption (2023)

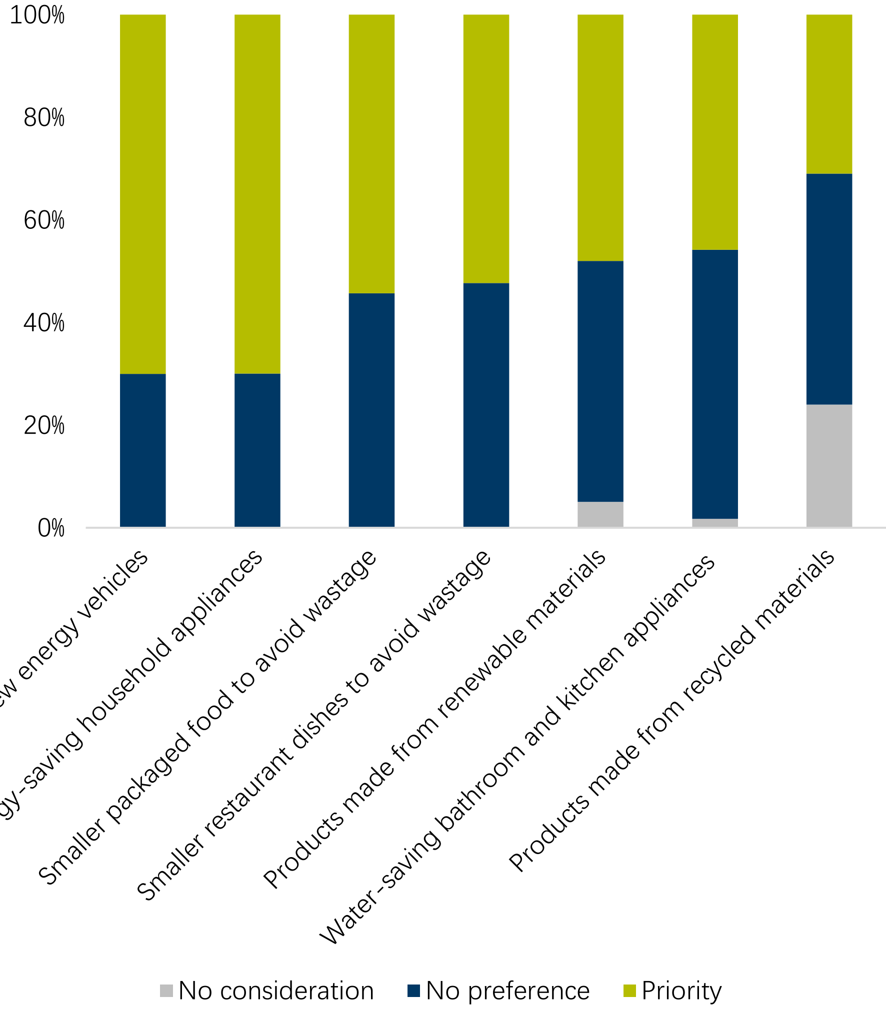


Source: Cushman & Wakefield Research

Meanwhile, according to Cushman & Wakefield Research, 70% of Chinese consumers today think that new energy vehicles are of good quality, are affordable and meet their transportation needs. Subsequently, more are more buyers in China are gravitating to these types of vehicles in terms consideration and purchasing. Moreover, when purchasing household appliances, 69% of Chinese consumers check the energy consumption level of the appliances they are looking to buy and prefer to purchase energy-saving appliances. Lastly, more than 52% of Chinese consumers advocate the "clean your plate" campaign and now prefer to buy smaller packaged food or dishes when eating in or out (Figure 38).

Figure 38:

Chinese consumers' attitude towards "green" consumption (2023)



Source: Cushman & Wakefield Research

Retail enterprises practice sustainable development

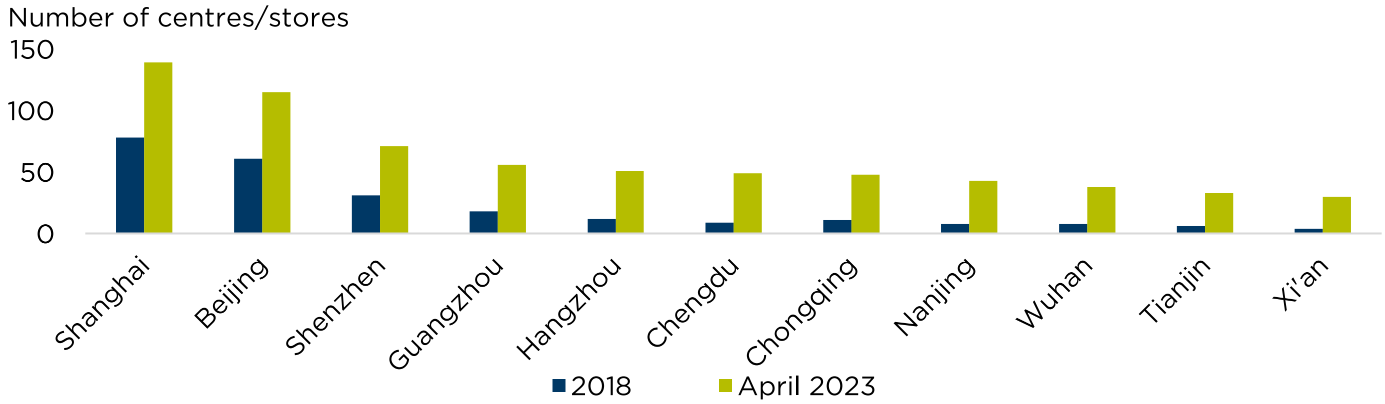
In recent years, shopping centres and retailers have also actively promoted green consumption, built "green" buildings and carried out energy-saving renovations on building facilities to help China achieve its "dual carbon" goals. Both landlords and retailers in many instances have taken sustainability into consideration to create eco-friendly spaces and buildings that benefit user health, safety and well-being, while optimising resource use and reducing the impact on climate change.

Existing international consumption centre cities in China also encourage consumers to buy related 'green' goods and products through subsidies and credit scores. "Green" clothing, new energy vehicles, energy-saving household appliances, smart homes and other "green" consumption retail sectors are expected to see rapid development in the future.

Different from traditional brands, "green" consumption brands in China are more willing to open their stores in high profile shopping centres in core areas, so as to effectively display their latest technologies and products, establish effectual interaction with consumers, and further enhance their brand image. According to statistics from Cushman & Wakefield Research, in April 2023, the number of new energy car experience stores and smart home experience stores in China's first-tier cities has exceeded 381 and 849, respectively. These numbers are expected to grow continually in the future (Figure 39 and Figure 40).

Figure 39:

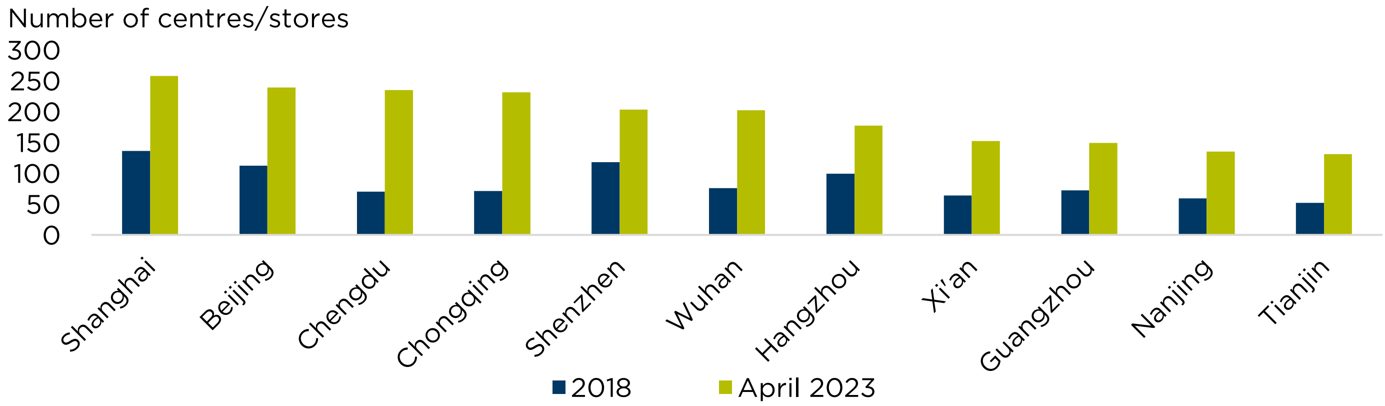
Number of new energy vehicle experience centres/stores in shopping centres in China (2018 and April 2023)



Source: Cushman & Wakefield Research

Figure 40:

Number of smart home experience centres/stores in first- and second-tier cities in China (2018 and April 2023)



Source: Cushman & Wakefield Research

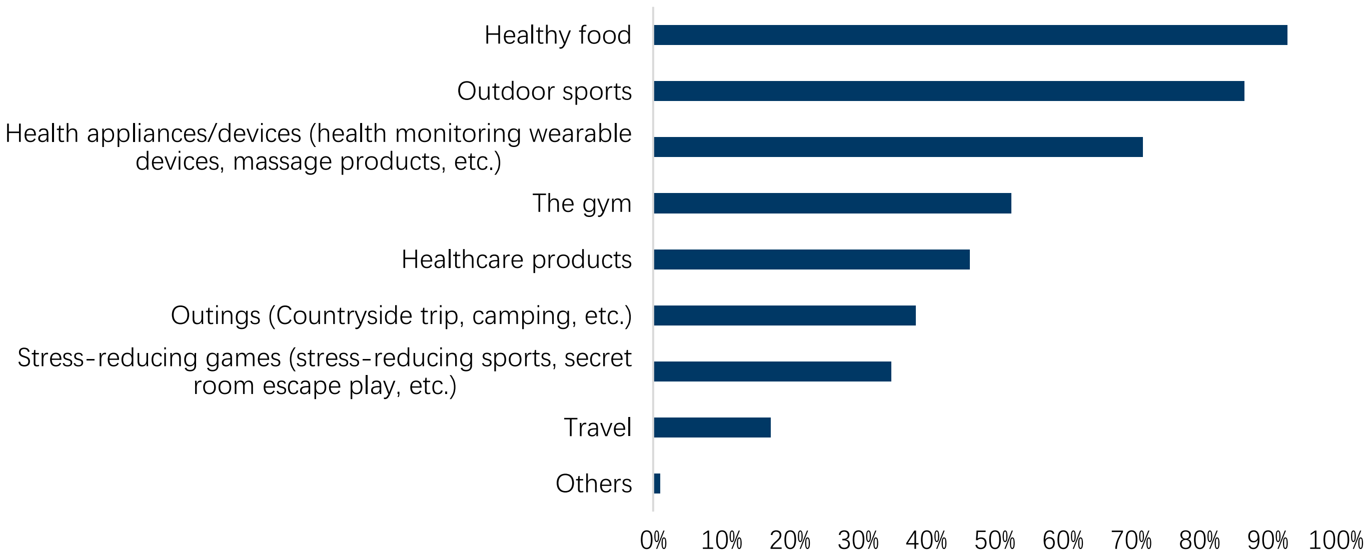
"Health" consumption – Opening a new consumption market

"Health" consumption refers to the consumption concept, behaviour, mode, and pattern that maintain a person's physical and mental health, as well as good social adaptability. After three years of living through the COVID-19 epidemic, Chinese consumers are increasingly concerned about "health" consumption. According to the 2023 "Health" Consumption Survey Report, 89% of respondents in China believe that to 'keep healthy' is the most important aspect in everyone's life.

With the upgrading of consumption concepts, "health" consumption is no longer just about "treating diseases". Chinese consumers keep physically and mentally healthy by eating healthy food, participating in outdoor sports, using health-related wearable devices/ home appliances, exercising in the gym, purchasing healthcare products, going on outings, playing stress-reducing games, travelling, etc. (Figure 41). "Health" consumption now is becoming a new growth point for Chinese consumer consumption in general, including consumption today and in the future in China's international consumption centres cities.

Figure 41:

The ways that Chinese consumers keep healthy (2023)



Source: Cushman & Wakefield Research

Today, Chinese consumers are paying more attention to healthy food. The nutritional aspect of food has become an important requirement when choosing to purchase a product. Therefore, light and fresh food is now favoured by consumers.

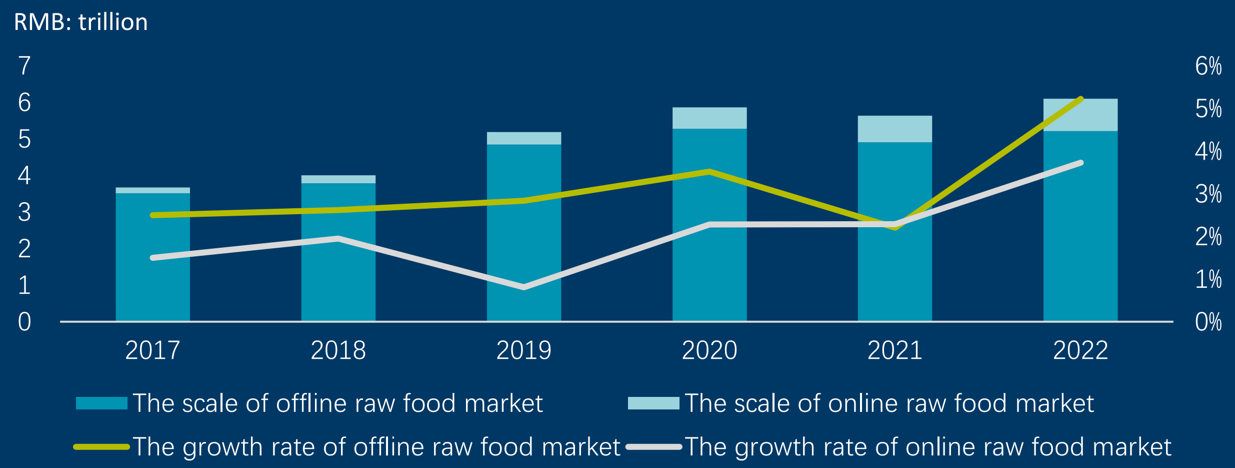
Thanks to the extensive coverage of China's cold chain logistics, the freshness of food in supermarkets, farmer markets and restaurants has significantly increased. It only takes 1-2 days for vegetables, fruit and other kind of foods to be picked from their origin area and sold on shelves. Consumers can conveniently purchase the freshest food offline or online.

Taking Hema as an example, its "Daily Fresh" food series is set to only sell for one day. All categories of food, such as vegetables, fruit, meat and poultry, dairy products, baked goods, seafood, aquatic products, etc., are packaged into small packages with a one-day expiry date, thus providing consumers with the freshest food every day.

With consumer interest expanding so the scale of China's fresh food market is set to further increase. Today, the scale of China's online fresh retail market industry is RMB888 billion, while the scale of the country's offline fresh retail market industry size is RMB5.2 trillion (Figure 42).

Figure 42:

The scale and growth rate of the fresh food market industry in China (2017 – 2022)



Source: Huaon.com, Cushman & Wakefield Research

Moreover, food production enterprises continue to develop food that has reduced salt, oil, sugar and preservatives to meet the latest consumer tastes and health needs. Taking the baked goods industry as an example, five years ago, most baked goods had a shelf life of around six months, and, in some cases, up to 18 months. Three years ago, the shelf life of baked goods was reduced to about three months. And in the last year, we rarely see baked goods with a shelf life of more than 30 days.

Health devices and appliances

Smart wearable-devices with health monitoring functions and home appliances can help users identify potential health risks in their daily lives and intervene in/prevent the occurrence of disease in a timely manner. Smart wearable-devices in particular are now often used in all aspects of people's daily lives, becoming the tracker and monitor of many people's daily exercise, diet, sleep, and work.

According to IDC, the sales of smart wearable-devices in China reached 63.43 million units in the first half of 2021, an increase of 44% compared to the same period last year. Driven by new technologies such as the IoT and artificial intelligence (AI), the global market size of smart wearable-devices may exceed billions of U.S. dollars.

Global high-tech and medical device companies have not only increased their investment in the research of smart wearable-devices but have also opened health experience centres to allow consumers to experience a healthy lifestyle. For example, Huawei flagship stores regularly hold salons or events in the Huawei Community, where users have the opportunity to learn about the latest Huawei sports and health products.

Sport and fitness

As one of the ways to keep people healthy, sports products and services are in high demand in China. According to statistics from the General Administration of Sport, about 67.5% of people in China participated in physical exercise at least once a week in 2021,18.5% more than in 2014 (Figure 43).

Figure 43:

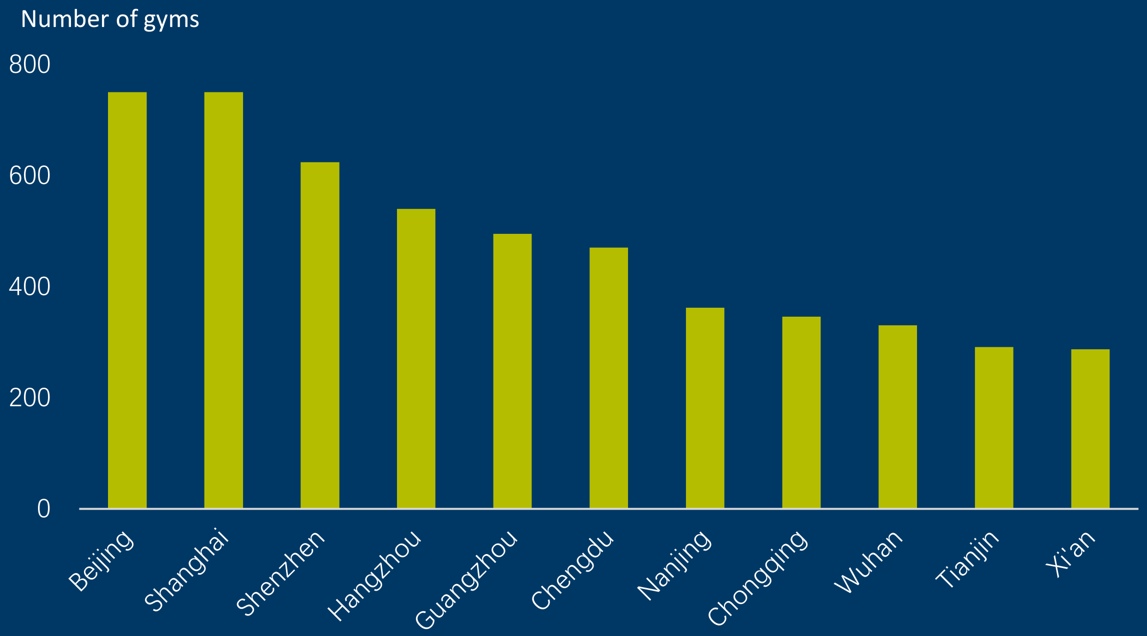
The percentage of people in China who exercise once a week (2014 and 2021)

Source: General Administration of Sport (China), Cushman & Wakefield Research

Along with market growth, new trends in sport and fitness retailing have emerged and they are:

- **Traditional chain gym enterprises are now being swept up by smart gym enterprises. Smart gyms use smart technologies, such as big data, cloud computing, sensing technology and online platforms, which reduce costs, improve operational efficiency and provide customers with cost-effective services. In the second quarter of 2022, the number of smart gyms in Beijing, Shanghai, Shenzhen, Guangzhou, Chengdu, Wuhan and Hangzhou has already exceeded 700 (Figure 44).**
- **The 2022 Winter Olympic Games further boosted the popularity of sports in China. Fitness and sports have become a way of life for many people in China today. Affected by this, shopping centres have paid more attention to the sports sector in recent years. The sports sector has become a new bright spot for shopping centres to attract consumers. Alongside this, the indoor sports centres housed by shopping centres are not limited to gyms and fitness studios, but integrate F&B, arts, entertainment, exhibition, education, tourism and other functions, to become new venue for family and friends to relax and be entertained in.**
- **In addition to indoor sports centres, more and more diversified and recreational sports, such as equestrian, archery, skiing, karting, etc., are also favoured by shopping centres. The associated recreational sports brands are also using the latest technology to save space and provide customers with an immersive experience of sports.**

Figure 44:
Number of smart gyms in first- and second-tier cities in China (April 2023)



Note: Does not include yoga and dance studios.
Source: Cushman & Wakefield Research

The Metaverse – Reinventing the consumption experience

A new digital era has arrived with the emergence of the Metaverse. Thus far, the Metaverse has been widely used in brand marketing, by e-commerce, by shopping centres, in the tourism industry, by performing arts and by other consumer fields, greatly improving the consumption experience for consumers (Figure 45).

Figure 45:

The development process of the experience economy

Digital development stage	Electronic era 1980 - 2004	Information era 2005 - 2013	Network era 2014 - 2019	Digital era After 2020
Internet development stage	Web 1.0	Web 2.0	Web 2.0	Web 3.0
Hardware	Media	PC	Smart Phone	XR (VR/AR/MR)
Computing	Microcomputer	Intel 8086、NOR Flash Memory, NAND Flash Memory, Pentium CPU Chip	Intel Coer CPU, Samsung 3D NAND Flash	DPU, Edge Computing, Distributed Computing…
Storage	No storage	Local storage	Cloud storage	Distributed storage, blockchain
Network	1G	2G/3G	3G/4G	5G/6G
Experience level	Individual experience	Compound experience	Comprehensive experience	Active experience
Interaction	offline	Online, unidirectional	Online, bidirectional	Immersive, interactive
Content	Text, pictures, video	Text, pictures, video	Text, pictures, video	The Metaverse

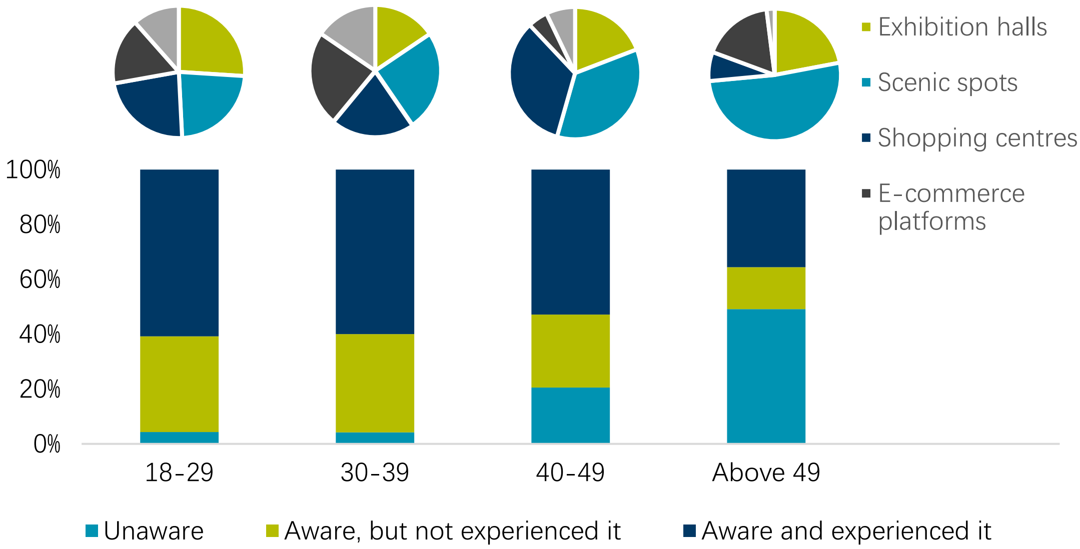
Source: Jazzyear, Cushman & Wakefield Research

Awareness of the Metaverse is quite high among Chinese consumers of all ages. International consumption centre cities in China, consequently, need to also remain fully aware of the Metaverse to fully tap into any future derivative business generated by younger consumers and their interaction with the Metaverse. In fact, about 95% of people below the age of 39 in China have heard of the Metaverse, and 60% of them have in fact experienced the Metaverse in China – with the experience being gained in exhibition halls, tourist attractions and VR/AR game stores in shopping centres (Figure 46).

Today, Chinese consumers have a great interest in the Metaverse. According to Growth Box, the younger generation in China, aged 18-22, clearly prefer shopping centres/ retailers to market through visualised virtual human beings, while the consumers group aged 33-37 prefer shopping centres/retailers to market through non-fungible tokens (NFTs) (Figure 47).

Figure 46:

Consumer awareness and experience of the Metaverse in China (2023)



Source: Cushman & Wakefield Research

Figure 47:

Mainland Chinese consumers: What they expect shopping centres/ retailers to adopt in terms of Metaverse marketing (2022)

Age	18-22	23-27	28-32	33-37
NFT-Social	102	95	93	115
NFT-Membership	69	111	123	135
Virtual Space-Social Platform	99	111	91	102
Virtual Space-Private Sphere	89	101	125	87
Visual Human-Idol	124	93	80	86
Visual Human-IP	134	89	77	79

Source: Growth Box, Tencent Marketing Insight, Cushman & Wakefield Research

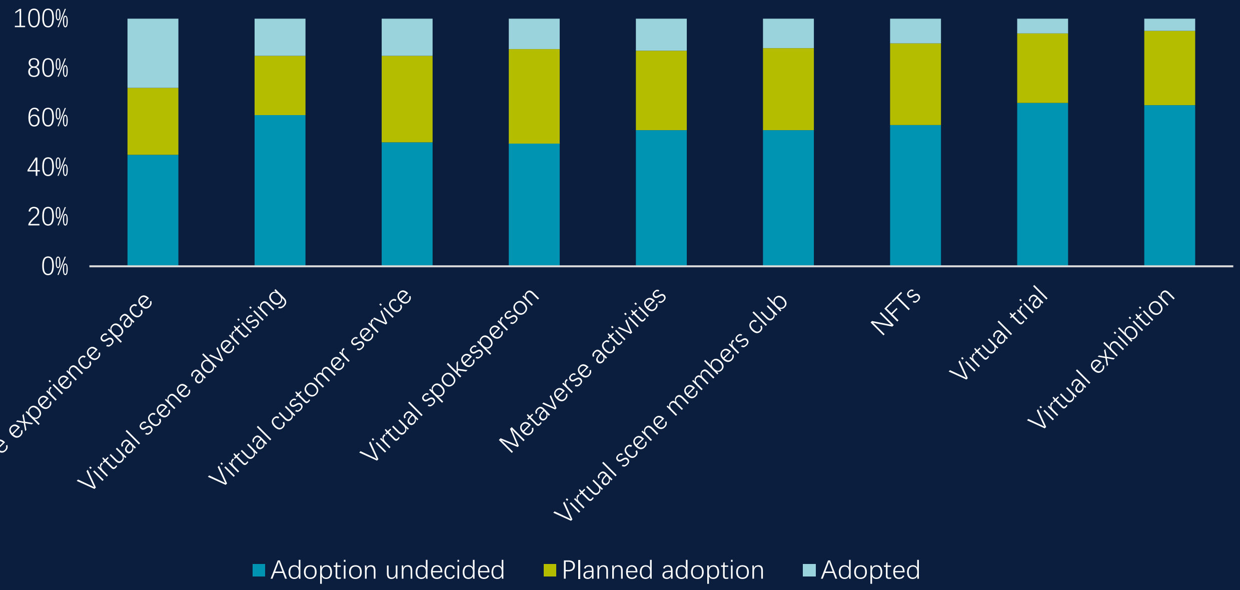
International consumption centre cities are now actively planning to continue to deepen their efforts in terms of the further development of the Metaverse by supporting the development of Metaverse-related industries, scenario applications, and related talent attraction. Shopping centres and retailers have also made many innovative attempts to effectively combine physical goods and products, physical retail space, and the Metaverse through technological means such as NFTs, virtual spaces, and virtual humans, offering consumers a brand-new interactive experience.

According to Cushman & Wakefield Research, about 28% of prime shopping centres have set up Metaverse experience spaces (introducing VR\AR game tenants, 3D exterior wall displays, or holding Metaverse-related curatorial activities), breaking the dimensional wall between reality and illusion through cutting-edge technologies such as VR, AR, real-time rendering, naked-eye 3D, holograms and sensing, and thereby providing consumers with an all-round sensory experience. Moreover, the percentage of shopping centres/brands adopting virtual scene advertising, virtual customer service and virtual spokespersons is about 15%, 15% and 13%, respectively (Figure 48).

Looking ahead, shopping centres and retailers in international consumer centre cities in China will continue to explore the application scenarios and service models related to the Metaverse to create more attractive and competitive consumer shopping experience scenarios.

Figure 48:

Shopping centres/retailers in China which plan to adopt/have adopted Metaverse-related technology (April 2023)



Source: Cushman & Wakefield Research

STEPPING UP CONSUMPTION

INTERNATIONAL CONSUMPTION CENTRE CITY RETAILING IN CHINA

KEY TAKEAWAYS

1. International consumption centre city retailing in China is the advanced form of domestic consumption market upgrading. International consumption centre cities also act and will continue to act as platforms and hubs for connecting with the global consumption market and attracting global consumers.

2. The clustered-city middle class, provincial city youngsters, and the “silver surfers” are gradually becoming the main consumer groups in China. Their demands, preferences, and behaviours are driving new changes in consumption and international consumption centre cities in China will need to be aware of these changes to capture any new business opportunities and remain competitive.

3. Finally, brand owners and retail property owners will leverage the development and business impetus of international consumption centre cities to continuously explore new sources of consumer and consumption growth, including:

- **Urban “third spaces”;**
- **The “first store economy”;**
- **The “15-minute city”;**
- **“Green” consumption;**
- **“Health” consumption, and;**
- **The Metaverse...**

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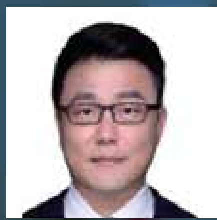

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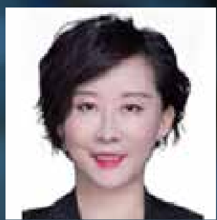

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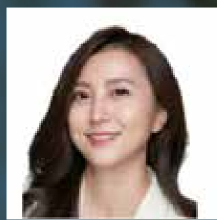

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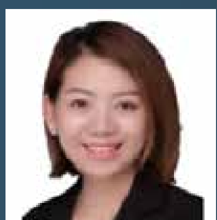

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