CUSHMAN & WAKEFIELD
戴 德 梁 行

SHOPPING CENTRE UPGRADING IN CHINA:

NEW CONCEPTS TO CHANGE PERCEPTIONS

Greater China Research | July 2024

Better never settles

CONTENTS

Part 1

CONSUMER DEMAND ACCELERATES CHANGE IN CHINA

07

- Continuous optimisation of the consumption structure
- The popularity of interest-driven consumption
- Avoiding the trap of consumerism
- The rise of “dopamine consumption”
- The upgrading of county-level consumption

Part 2

UNLOCKING CONSUMPTION TO PUSH POTENTIAL

19

- "Non-standard shopping centres" - A new solution for urban renewal differentiation
- “Black technology” - Creates new consumer experiences
- Creative fairs – Add vivacity to the shopping experience
- New performing arts spaces - A new driving force for consumption
- "Micro vacation" - Offering "relaxed" commercial retail spaces

KEY TAKEAWAYS

30

EXECUTIVE SUMMARY

In 2024, thanks to pricing stability and the implementation of a series of policies to stimulate domestic consumption demand, the scale of China's consumer market continued to expand. Cultural consumption, tourism consumption, digital consumption, green consumption, and health consumption have all seen continued growth. Additionally, new retail models such as "instant" retail, social e-commerce and social customer relationship management are also developing rapidly.

Looking ahead to the future, the Chinese retail market still holds enormous potential. Under China's common prosperity programme, middle-income households have been growing in number during the "14th Five-Year Plan" period. Consumer demand from residents is accelerating and will continue to accelerate change in China, along with the gradual growth of their income.

Retailers and shopping centre owners in China are constantly innovating new consumption scenarios, new retail segments and new business models, so as to explore and foster fresh consumption growth points. To keep abreast of the latest retail innovation in China, Cushman & Wakefield conducted a survey of 3,866 consumers in 23 cities and counties and in-depth interviews with several brand executives and shopping centre operators in China from December 2023 to April 2024 which focused on five areas of change which could unlock consumption potential. These five areas of change are:

- **"Non-standard shopping centres";**
- **"Black technology";**
- **Creative fairs;**
- **New performing arts spaces, and;**
- **"Micro vacation" commercial retail spaces.**

PROLOGUE

Duke Zhen

Managing Director
Head of Retail Services, China

duke.sq.zhen@cushwake.com

Shaun Brodie

Head of Greater China Research Content

shaun.fv.brodie@cushwake.com

In the context of intensifying market competition, shopping centres need to disrupt traditional business models by leveraging advanced technology, introducing unique brands, innovating commercial strategies, creating experiential spaces, providing high-quality services and offering personalised customer care to establish a core competitive edge. As a globally renowned commercial real estate services and consulting company, Cushman & Wakefield will continue to utilise its professional expertise and extensive experience in the field of commercial real estate to support the ongoing transformation and upgrading of China's retail industry.

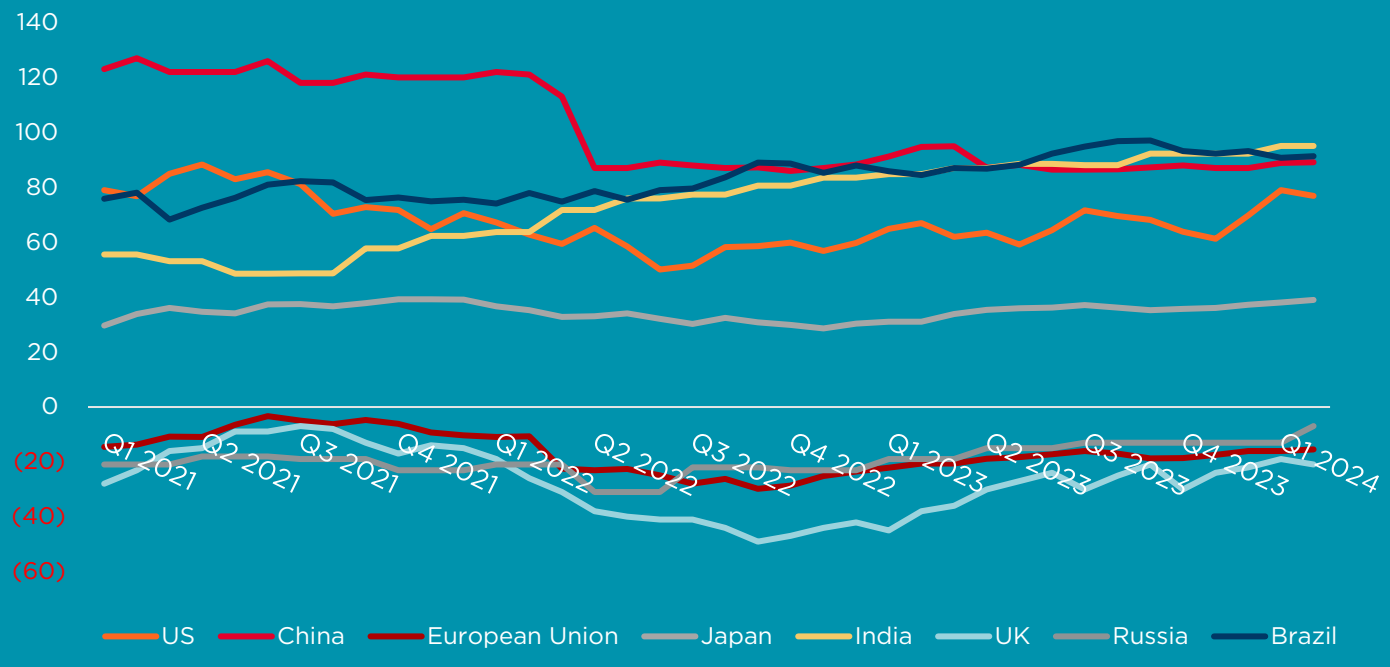
As the scale of China's consumer goods market reaches a new level, new consumption scenarios, new formats, and new models continue to emerge. As the market keeps evolving, broader business development prospects are expected to materialise.

INTRODUCTION

In recent years, due to weak economic growth, rising inflation and declining real wages, the consumer confidence index of many countries in the world has declined. According to Trading Economics, China's consumer confidence index has remained at a low level since Q2 2022, reflecting consumers' recent cautious attitude towards the trends of economy and consumption (Figure 1).

Entering 2024, with the good start to the economy, the stable Consumer Price Index (CPI), and the implementation of a series of policies to expand domestic consumption demand, China's consumer confidence has remained stable (Figure 1). According to Nielsen's survey, 50% of respondents in China believe their financial situation is better and 65% of respondents believe their household income will improve by the end of 2024, more than the survey's same figures for the same period in 2023.

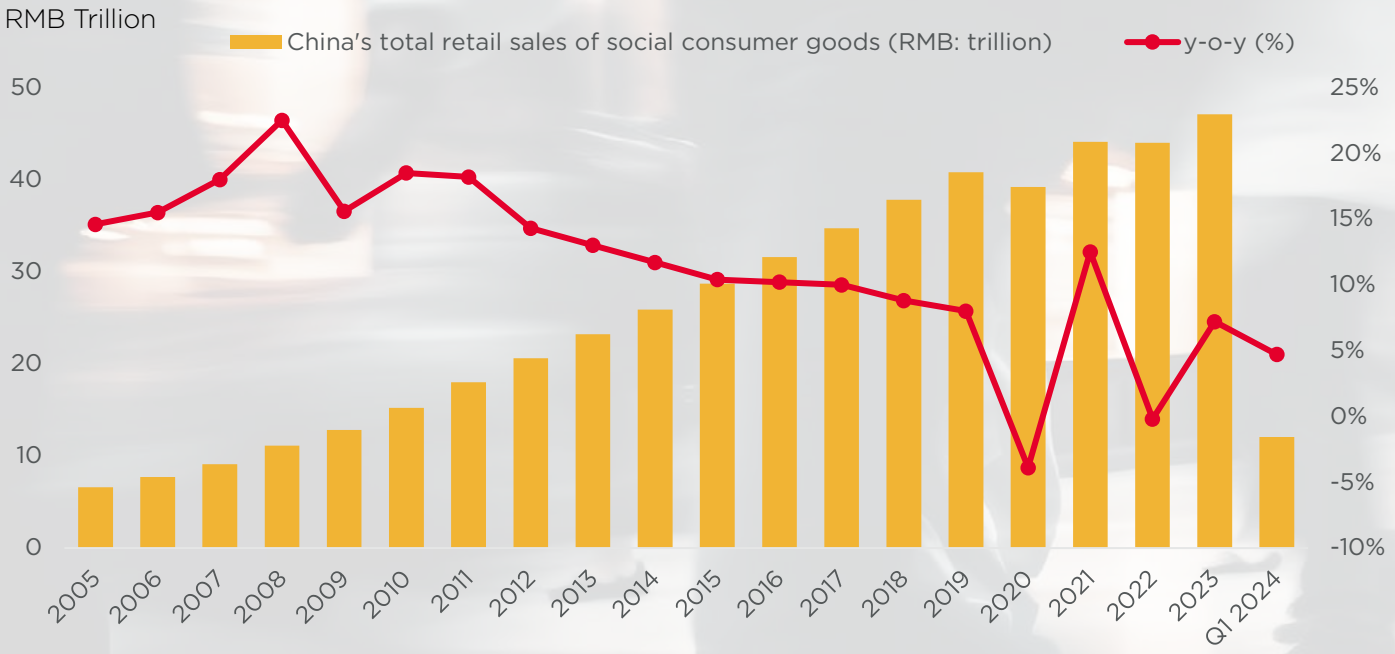
Figure 1: Major global economies' consumer confidence index (2021-Q1 2024)



Source: Trading Economics, Cushman & Wakefield Research

In Q1 2024, China's total retail sales of consumer goods reached RMB13.03 trillion, up 4.7% y-o-y (Figure 2). For new areas of consumption growth, in the first two months, digital, environmentally-friendly and health-related consumption, such as digital music, energy-saving home appliances and ski equipment increased by 95.1%, 167.5% and 66.4% respectively.

Figure 2: China's total retail sales of social consumer goods (2005-Q1 2024)



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

Moreover, China's tourism market is moving from recovery growth to full prosperity in 2024. According to China's Ministry of Culture and Tourism, domestic destinations welcomed a staggering 474 million visitors over the eight-day Chinese New Year holiday and tourism-related revenue soared 47.3% y-o-y to nearly RMB632.69 billion. What's more, during the five-day May Day holiday, Chinese tourists took 295 million domestic trips and spent nearly RMB166.89 billion on their domestic holiday trips, up 12.7% y-o-y.

Looking ahead to the future, the Chinese retail market still holds enormous potential. Under China's common prosperity programme, middle-income households have grown during the "14th Five-Year Plan" period. According to McKinsey's forecast, 209 million households could enter the upper-middle & high-income bracket (household earning incomes of more than RMB160,000). Meanwhile, 114 million households will enter the middle-income bracket (household earning incomes of RMB85,000-RMB160,000).

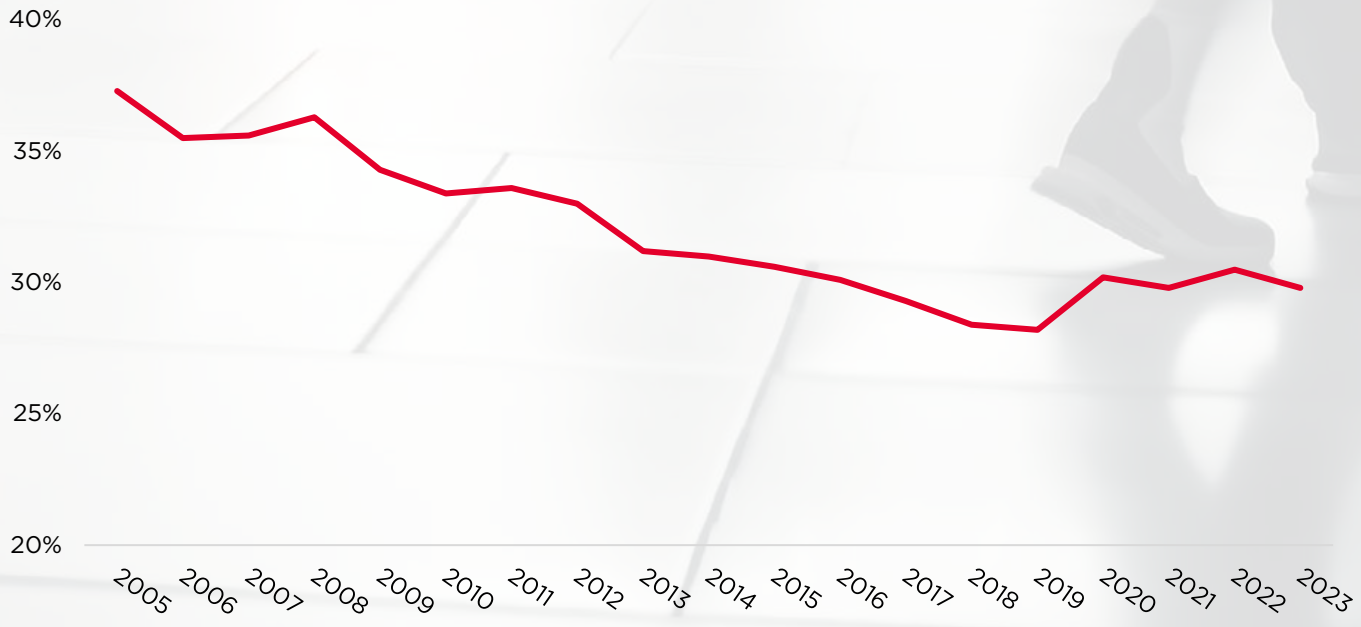
The consumption demand and shopping behaviour of Chinese residents have undergone great changes, along with the gradual growth of their income. Retailers and shopping centre owners in China are constantly innovating consumption scenarios, retail sectors and business models, so as to explore and foster new consumption growth points.

Consumer demand accelerates change in China

1.1 Continuous optimisation of the consumption structure

The consumption structure of Chinese residents has gradually shifted from spending on necessity-focused goods and services to spending on leisure-focused goods and services over the last two decades. According to the National Bureau of Statistics, Chinese families, and their Engel' s coefficient, (the proportion of income spent on food), stood at 29.8% in 2023 (Figure 3). The data indicates that the consumption structure of Chinese consumers has undergone positive changes.

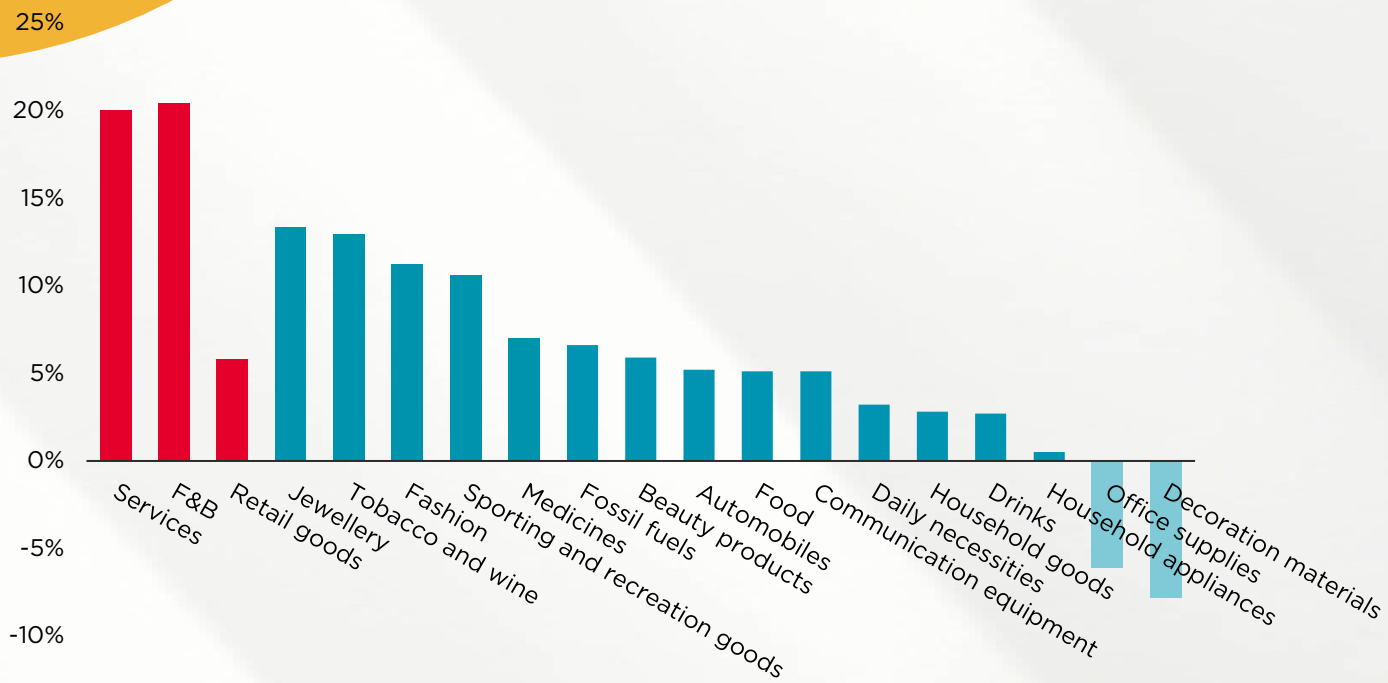
Figure 3: Engel' s coefficient for Chinese families (2005–2023)



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

With the enrichment of material life, Chinese consumers now pay more attention to high-level needs such as spiritual satisfaction, expression of personality, and self-improvement. They are more able and willing to spend on things such as private cars, 3C products, entertainment, travel, fitness and education. In 2023, retail sales volume related to concert going, performance entertainment, tourism, sports and F&B saw a rapid growth of more than 20%. Meanwhile, during the same period, sales of upgraded goods such as jewellery, clothing, sports and entertainment products, tobacco and alcohol, consumer electronics, cars and cosmetics increased by more than 6% (Figure 4).

Figure 4: The growth rate of retail sales by category in the Chinese mainland region (2023)

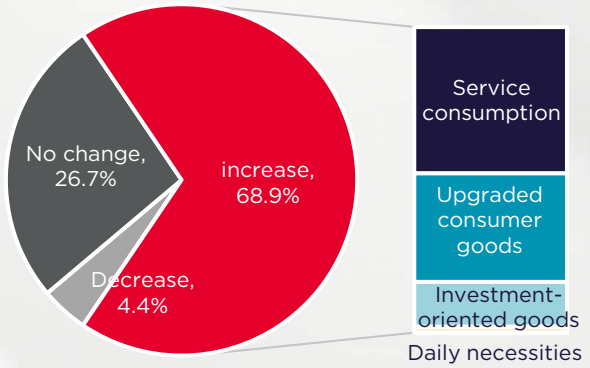


Source: National Bureau of Statistics (China), Cushman & Wakefield Research

The consumption confidence and willingness of Chinese residents to spend are rebounding in 2024. According to Cushman & Wakefield's survey, about 68.9% of respondents plan to increase their consumption budget compared with last year (Figure 5). The respondents believe that due to price stability, lowered pressure regarding home purchasing and loan repayment, and consumption subsidies in China, they are more confident about spending in 2024.

Among the respondents who plan to increase spending, about 47.9% of consumers plan to increase their service consumption, such as F&B, entertainment, tourism and education. Additionally, about 35.5% of consumers plan to increase their consumption of upgraded consumer goods, such as private cars, 3C products, smart home equipment and cosmetics; and another 14.6% of consumers plan to increase their consumption of investment-oriented goods, such as gold jewellery (Figure 5).

Figure 5: Change in Chinese consumers' consumption budget compared with last year (2024)



Note: Service consumption mainly includes F&B, entertainment, performance, tourism, education, sports events, etc. Upgraded consumer goods mainly includes private cars, 3C products (computers, communication and consumer electronics), smart home equipment, fashion, cosmetics, fitness equipment, etc. Investment-oriented consumption mainly includes gold, jewellery, artwork, curios, limited edition products, etc. (and excludes stocks, funds, investment in property, etc). Daily necessities mainly include food, drink, personal hygiene products, kitchen & bath products, etc.

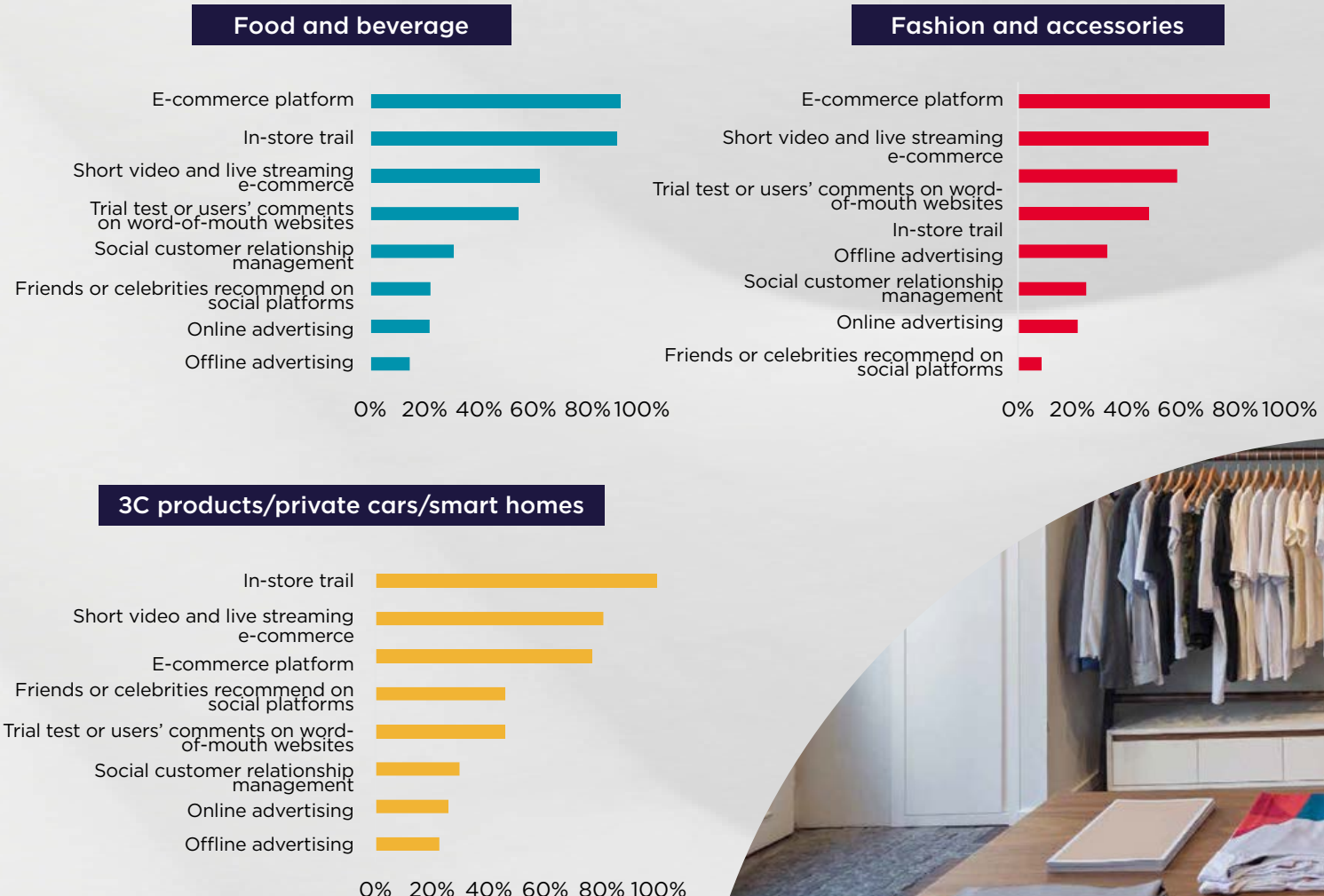
Source: Cushman & Wakefield Research

1.2 The popularity of interest-driven consumption structure

With the popularisation of social commerce and instant-delivery retail in China, most consumers in China, especially youngsters, can enjoy the consumption process in a more diverse and innovative way. Nowadays, Chinese consumers have evolved from passive recipients of brand information to proactive seekers and sharers of such content, shifting from a straightforward "looking for goods" approach to a more engaging "interest-driven purchasing" mindset. They are not only consumers, but also creators, sharers, reviewers and general participants.

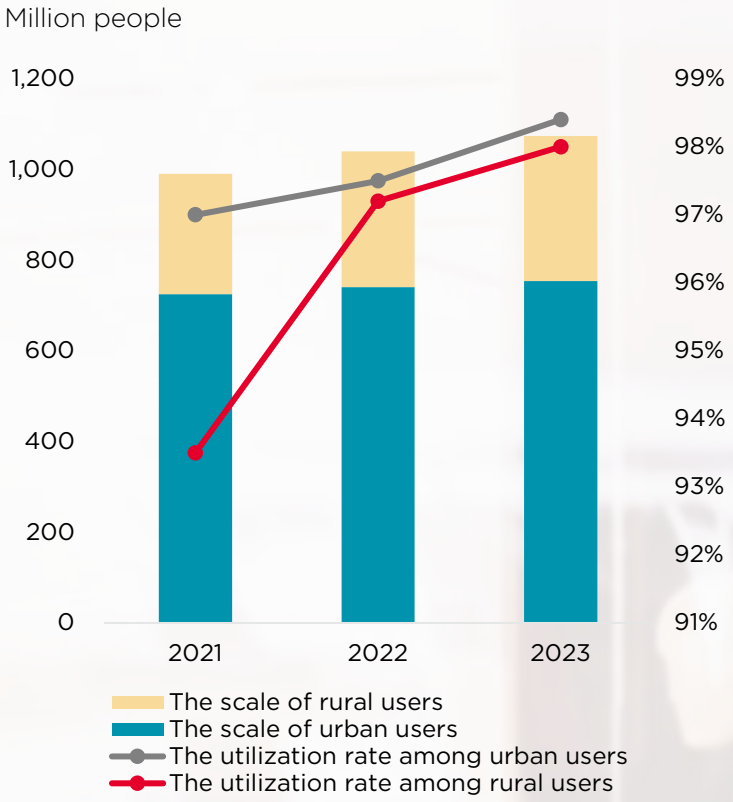
Thus, traditional advertising has become difficult to impress consumers in China. Short video and live streaming with in-depth and interesting content, are more likely to attract consumer attention. According to Cushman & Wakefield Research's survey, short video and live streaming e-commerce, product review videos and word-of-mouth websites, and social customer relationship management have become the main channels for Chinese consumers to get product information and make purchasing decisions (Figure 6). It is noteworthy that more and more Chinese consumers are motivated by attractive promotional videos, product review videos and user comments on social media when looking to buy goods and services.

Figure 6: The channels that consumers get product information and make purchasing decisions from in China (2024)



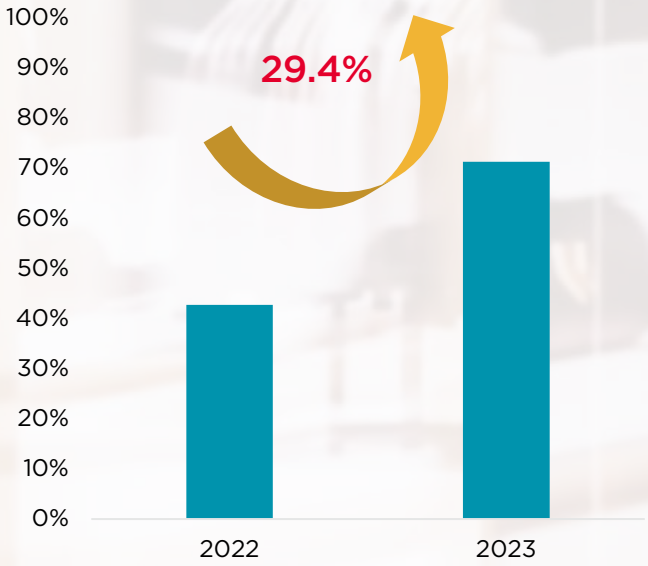
Source: Cushman & Wakefield Research

Figure 7: The scale of online audiovisual users and the utilisation rate among Chinese netizens (2021-2023)



Source: China Internet Network Information Centre, Cushman & Wakefield Research

Figure 8: The proportion of users who have bought goods by watching short videos or live broadcasts in China (2022-2023)



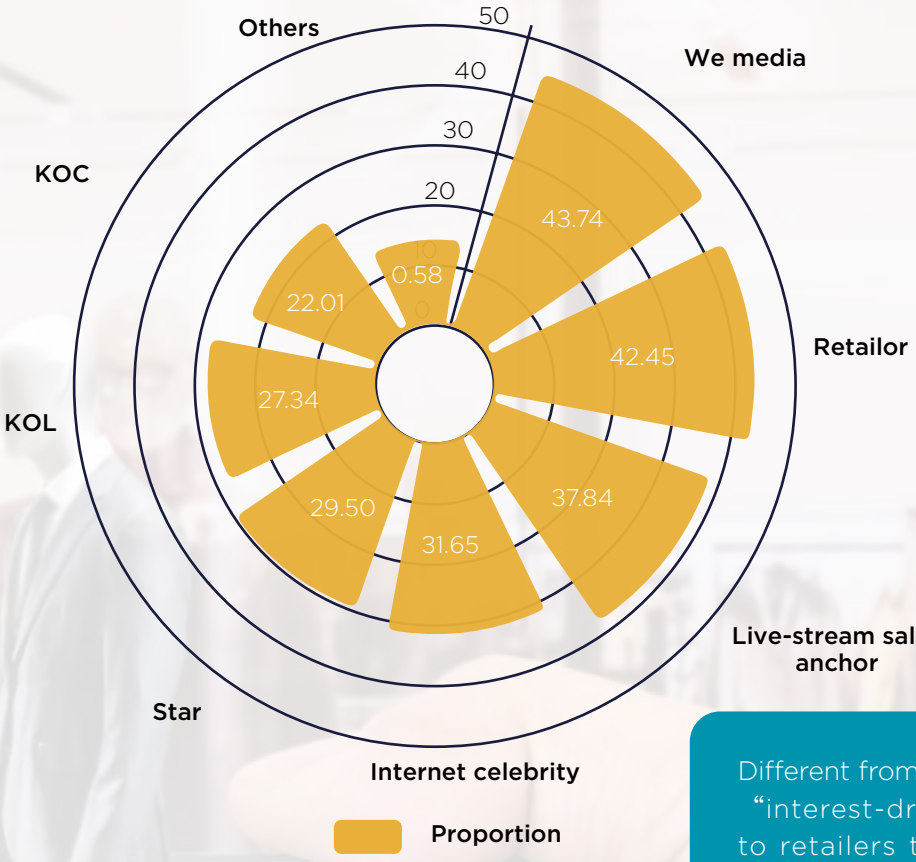
Source: 2024 China Network Audiovisual User Survey, Cushman & Wakefield Research

Looking back on the past year, "Harbin Ice and Snow World", "Pangdonglai Shopping Centre", "Tianshui Malatang" and "Xiaomi's SU7 electric sports car launch" have gone viral on Chinese social media, indicating that Chinese consumers are no longer just satisfied with basic needs, but would rather pursue shopping experiences, spiritual satisfaction and personal expression. Retailers not only need to visually and vividly showcase innovative products, but also need to interact with consumers in real-time, thereby increasing people's favourability. Short video or live streaming is able to build new bridges between brands and consumers with its simple and convenient operation, rich content, interesting interactions and personalised expression.

According to the China Internet Network Information Centre, network audio-visual applications, which include short videos, live broadcasts, network audio and comprehensive video, saw the scale of users reach 1.074 billion in China in 2023, and the utilisation rate among netizens was 98.3% (Figure 7). Meanwhile, the average daily use time of mobile network audiovisual applications in China in 2023 was 187 minutes, or more than 3 hours. Among the users in China in 2023, more than 70% of them bought goods by watching short videos or live broadcasts (Figure 8). The huge market size and large number of practitioners have driven short videos and online live streaming to become important media forms in China, and this has had a profound impact on retail marketing.

Moreover, with the optimisation of social media mini programmes such as WeChat Mini Programme and TikTok Mini Programme in China, more and more retailers have established social customer relationship management platforms to provide consumers with a more personalised and exclusive shopping experience. The typical social customer relationship management platform is created from a business model which is able to integrate self-built communities, a membership system, a fan economy and targeted sales to help retailers and consumers communicate and interact in more efficient and better ways. This unique business model not only meets the needs of Chinese consumers in terms of their needs for personalised goods and services, but also brings higher sales and customer loyalty to brands and retailers.

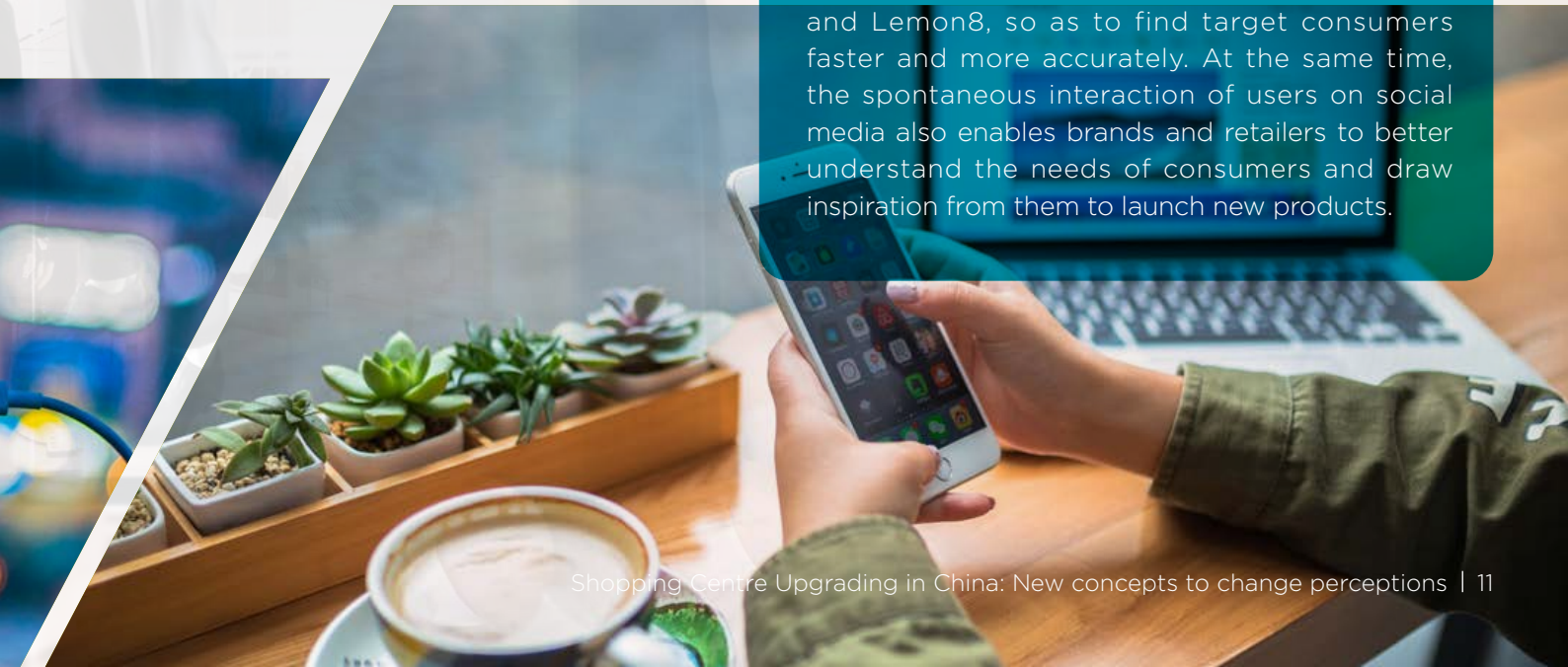
Figure 9: The types of social customer relationship management that Chinese netizen followed (2023)



Source: iiMedia Research, Cushman & Wakefield Research

According to iiMedia Research, among the types of social customer relationship management platforms that Chinese netizens follow, in 2023, 43.74% of consumers followed citizens' news sharing media platforms, 42.45% of consumers followed retailers, 37.84% of consumers followed live-stream sales anchors, 31.65% of consumers followed internet celebrities, and 29.50% of consumers followed general stars (Figure 9). The social customer relationship management has gradually become an important means for brands and retailers to obtain customer traffic and establish intimate customer relationships.

Different from the traditional retail business model, "interest-driven consumption" is conducive to retailers to more deeply tap the potential of the consumer market. Therefore, more and more brands and retailers have recently begun to spontaneously operate their own accounts on social media, such as TikTok, Bilibili, WeChat and Lemon8, so as to find target consumers faster and more accurately. At the same time, the spontaneous interaction of users on social media also enables brands and retailers to better understand the needs of consumers and draw inspiration from them to launch new products.

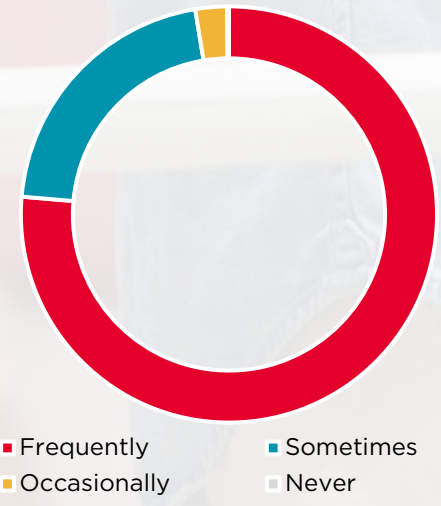


1.3 Avoiding the trap of consumerism consumptionstructure

The development of social commerce and omnichannel retail in China has broken down the information barriers of products, promoting information to reach more potential consumers. Therefore, the consumption concepts and preferences of Chinese consumers have undergone significant changes. They have gradually realised that excessive material consumption cannot bring lasting happiness and often leads to waste and environmental problems.

Nowadays, Chinese consumers are no longer blindly following the trends of "delicacy" and "luxury". They expect to spend less money and to get better goods and services. Chinese consumers will compare prices, discounts, coupons, gifts and activities on several online and offline stores, and then shop around for the best deal. According to Cushman & Wakefield Research's survey, up to 76.4% of respondents frequently compare prices, discounts, coupons, gifts and activities across multiple retail-related channels to get the best deal in China (Figure 10). For Chinese consumers, the absolute principle is "I want to buy high-end goods and services, but I don't want to buy expensive goods and services".

Figure 10: Price comparison shopping frequency among Chinese consumers (2024)



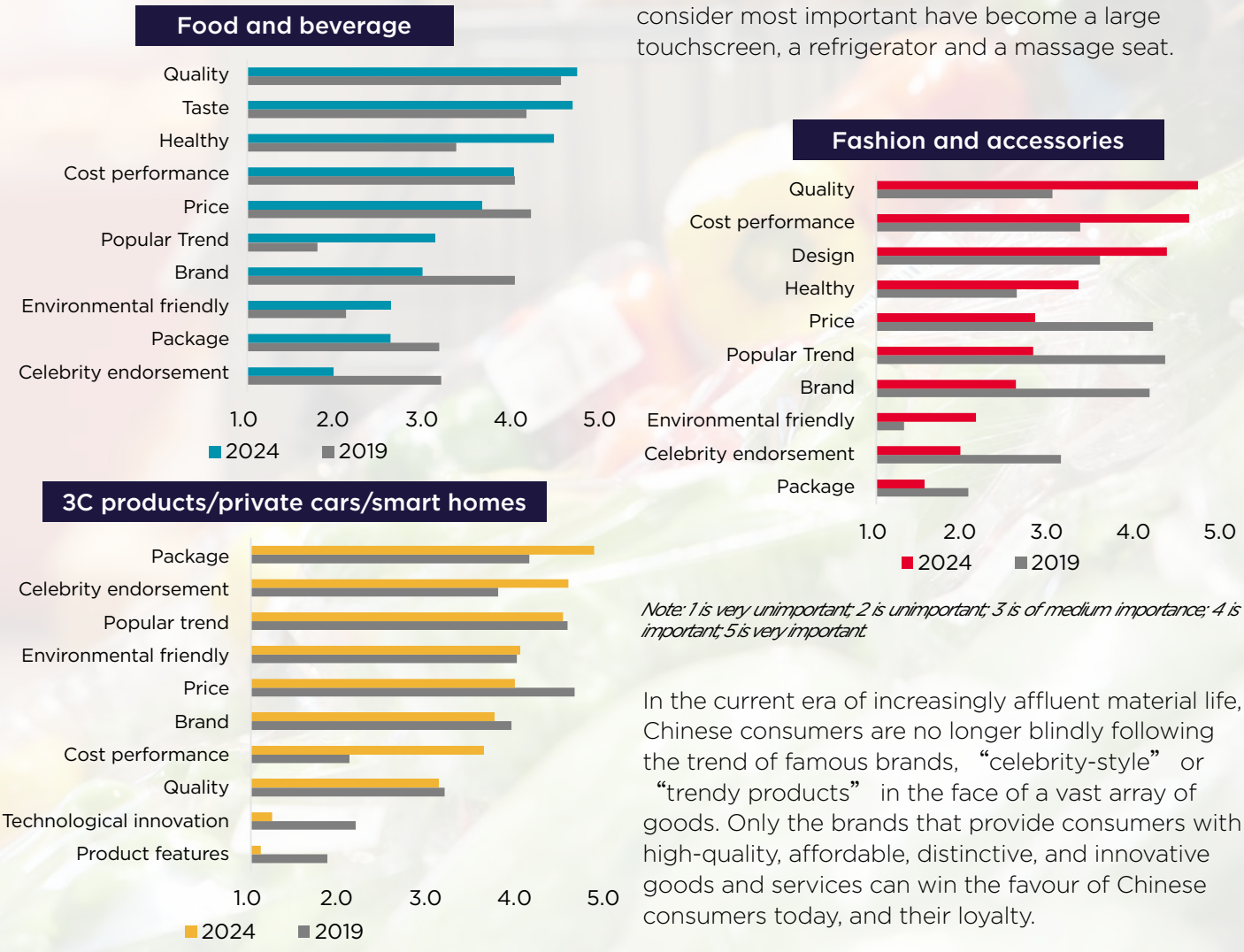
Source: Cushman & Wakefield Research

Moreover, Chinese consumers pay more attention to the cost performance, quality, technology, features, innovation and the experiential element of goods and services, as well as feedback on social media platforms. The era of consumerism where consumers pay a high brand premium for a product or service has become a thing of the past in many ways. According to Cushman & Wakefield Research's survey, the major factors that affect consumer purchasing decisions for fashion and accessories, such as quality, cost performance, design, health and sustainability are now more important. Meanwhile, the importance of major factors such as price, popular trend, brand status, celebrity endorsement and packaging quality have decreased. The major factors for food and beverage, such as taste, health, popular trend and sustainability, are more and more important when it comes to the purchasing decisions by consumers in China, however, the importance of price, brand status, packaging quality and celebrity endorsement have decreased (Figure 11). The above indicators reflect the fact that Chinese consumers are no longer following well-known brands or celebrity endorsements but are more rational when choosing goods and services to purchase.

Driven by technological innovation, people have increasingly high requirements around how smart, safe, energy consuming, environmentally friendly, humanized and personalized 3C products, private cars and smart home equipment are. According to Cushman & Wakefield Research, when Chinese consumers purchase 3C products, private cars or smart home equipment, the major factors that affect their decisions, such as product features, technological innovation and sustainability are more important. The importance of major factors such as brand status, celebrity endorsement and packaging quality have decreased (Figure 11).

Taking car purchasing as an example, in the past, when Chinese consumers bought private cars, the three elements they considered most important were the engine, the transmission and the chassis. Nowadays, the voice control, automatic driving, the electronic control system, a large touchscreen, a refrigerator and a massage seat have become the hot selling points at the launch of new cars. The new "Three accessories" of cars Chinese consumers consider most important have become a large touchscreen, a refrigerator and a massage seat.

Figure 11: The major factors by consumers in China when looking to buy selected goods and services (2019 and 2024)



Note: 1 is very unimportant; 2 is unimportant; 3 is of medium importance; 4 is important; 5 is very important.

In the current era of increasingly affluent material life, Chinese consumers are no longer blindly following the trend of famous brands, "celebrity-style" or "trendy products" in the face of a vast array of goods. Only the brands that provide consumers with high-quality, affordable, distinctive, and innovative goods and services can win the favour of Chinese consumers today, and their loyalty.

Source: Cushman & Wakefield Research

1.4 The rise of "dopamine consumption"

Dopamine is a neurotransmitter in the brain that is released when an individual feels happy, excited, or anticipates something. "Dopamine consumption" refers to consumers purchasing goods or services that provide "emotional value" for the purpose of pleasing.

In recent years, "dopamine consumption" represented by pop toys, pets, e-sports, cycling, skiing, concerts and tourism has begun to rise in China. This trend reflects that Chinese consumers are pursuing richer, more experiential, and higher-quality emotional and spiritual satisfaction when it comes to material satisfaction.

Figure 12: The top five most expensive hobbies of post-95 generation in China (2024)

Source: Tmall, Cushman & Wakefield Research

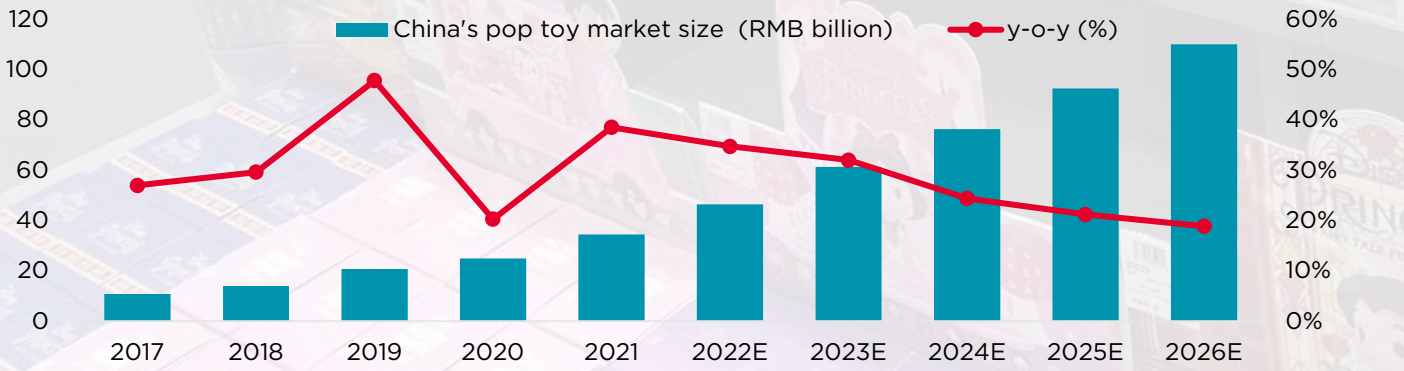
Pop toys

As a popular culture, pop toys represent the ideology and cultural expansionism of young people in this era. Chinese young people express their interests, hobbies and values by collecting pop toys, thereby generating identity. In the social circle of young people in China, pop toys have become as important, as spiritual consumer goods, as designer line shoes, electronic sports, photography, and cosplay (Figure 12). Pop toys with artistic, collectible, entertaining, decorative, and social qualities have become an important carrier for young consumers to express their emotions.

The younger generation in China are more inclined to use fragmented time for entertainment. Compared to movies or anime IPs, which require people to spend a continual time to understand the whole story, pop toy IPs utilise simplified content and imagery to engage with young consumers intermittently and efficiently through multiple channels.

Over the past few years, pop toys have gained more and more fans. The market size of China's pop toys has expanded rapidly. According to Frost & Sullivan, the market size of China's pop toys has grown from RMB6.3 billion in 2020 to RMB20.7 billion in 2022, registering a compound annual growth rate of 34.6%. By 2024, it will reach RMB76.3 billion (Figure 13).

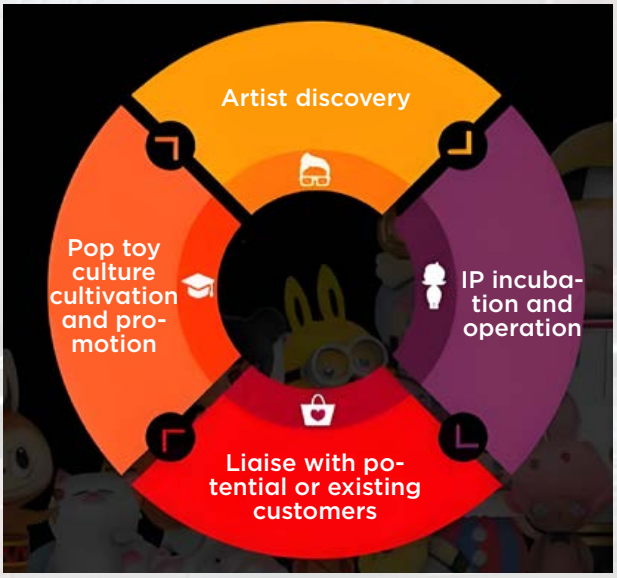
Figure 13: China's pop toy market size (2017-2026)



Source: Frost & Sullivan, Cushman & Wakefield Research

Through a full industry chain layout based on an IP matrix, pop toy companies in China have achieved a deep integration of content production, channel expansion and derivative development to fully tap into the monetisation potential of the overall IP matrix (Figure 14).

Figure 14: Pop toy consumption – The whole industry chain



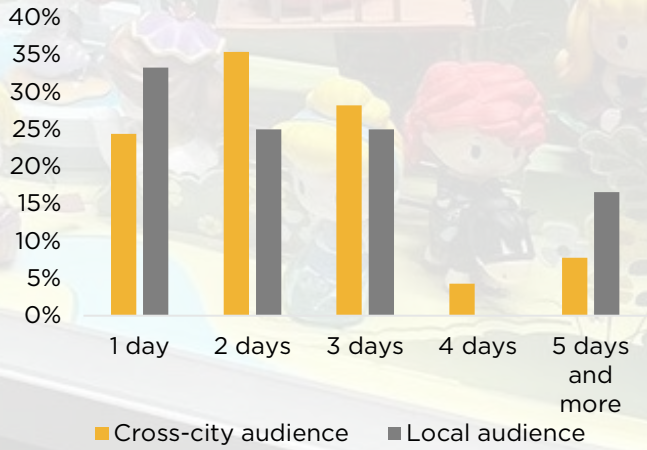
Source: POP MART, Cushman & Wakefield Research

Spillover effects of the "performance economy"

Over the past two years, the number of performing arts activities such as concerts, music festivals, dramas, children's plays and musicals has been surging in China. The scale of China's performance market reached RMB73.99 billion in 2023, hitting a record high, according to the China Association of Performing Arts. In Q1 2024, there were 119,000 commercial performances (excluding performances in venues), equivalent to more than 1,300 daily performances nationwide.

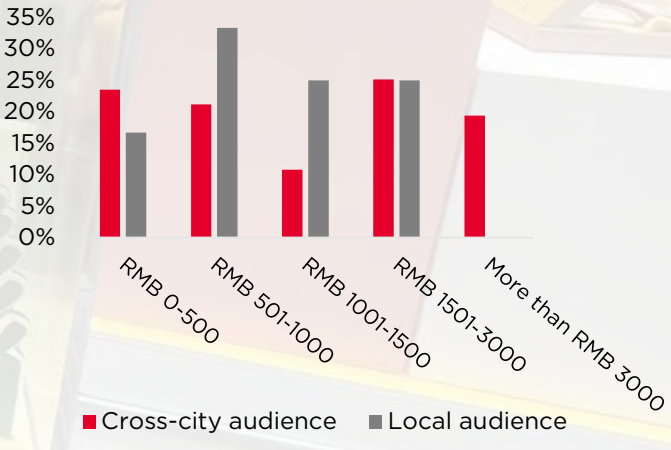
"To a City for a Song" has become a popular cultural phenomenon in China since 2023. The major cities have stimulated the local consumption of transportation, F&B, hotels and tourist attractions by holding concerts, music festivals and other performing arts activities. According to Ali Pictures, the proportion of out-of-town audiences of large-scale concerts in China reached 68% in 2023, an increase of 7.4% compared with 2019. Meanwhile, the proportion of out-of-province audiences reached 52%. Among them, 88% of out-of-town audiences will visit local or surrounding cities for between 1-3 days (Figure 15) and 44.5% of out-of-town audiences spent more than RMB1,500 on local or surrounding tourism (Figure 16).

Figure 15: The number of days visited by the audience in local or surrounding cities for concerts and music festivals in China (2024)



Source: China Association of Performing Arts, Ali Pictures, Cushman & Wakefield Research

Figure 16: Audience consumption in local or surrounding cities for concerts and music festivals in China (2024)



Source: China Association of Performing Arts, Ali Pictures, Cushman & Wakefield Research

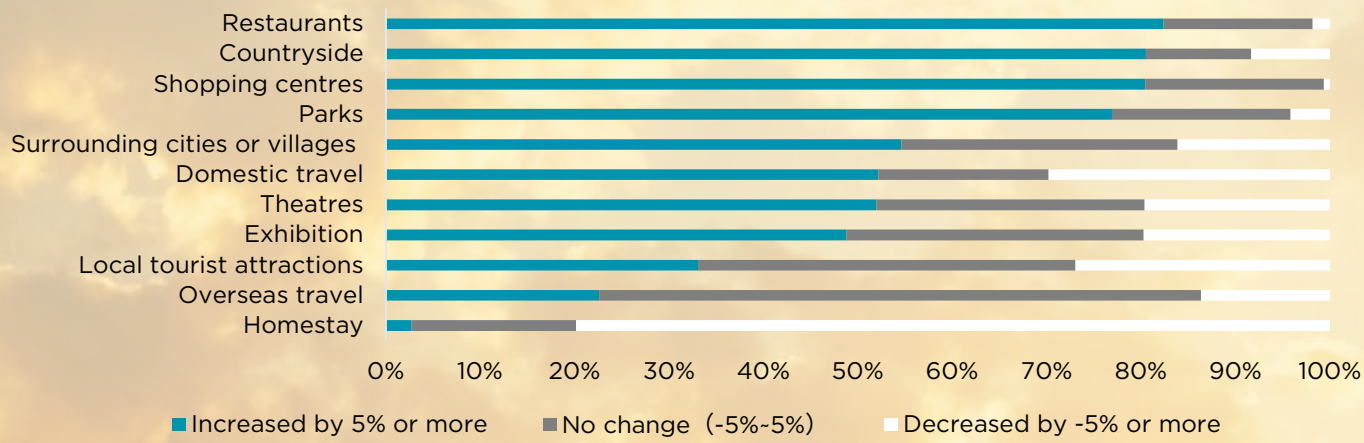
Therefore, many large and medium-sized cities in China have proposed the goal of becoming "cultural performance capitals" "music cities" and "concert cities". They aim to improve the facilities of venues, build new style performance spaces, cooperate with renowned performance institutions, cultivate professional managers, enhance local tourism reception capacity, and improve the performance and tourism industrial chain to amplify the spillover effects of the performance economy.

Outdoor recreational sports

In recent years, as Chinese people's living standards have improved, they have become increasingly concerned about their physical health and quality of life. Consumers have shown a preference for outdoor recreational sports that are close to nature. Since 2018, China's central and local governments have introduced a series of fiscal policies to support the development of rural tourism industries. The demonstration projects for rural revitalisation in China have focused on outdoor recreational sports, creating leisure resorts that integrate sports, vacation, study, team building and other functions, providing safe and comfortable outdoor venues for urban residents. Affected by the above positive factors, outdoor recreational sports such as camping, skiing, snowboarding, rafting, rowing, canoeing, kayaking, diving, surfing, cycling and hiking, have gradually moved from niche sports to mainstream sports.

According to Cushman & Wakefield's survey, up to 80.5% of respondents plan to increase their spending in the countryside, 76.9% of respondents plan to increase their spending in parks, and 54.6% of respondents plan to increase their tourism spending in surrounding cities or villages (Figure 17).

Figure 17: Changes in Chinese consumers' willingness to spend during weekends or holidays (2019 and 2024)

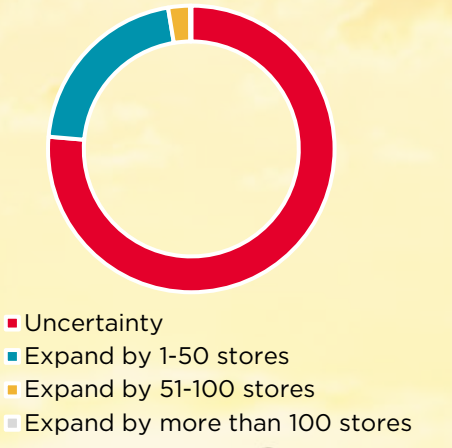


Source: Cushman & Wakefield Research

The participants in recreational sports in China are characterised by their youthfulness. According to Ma Feng Wo, the "post-90s" generation has emerged as the largest consumer segment, accounting for 36.1% of outdoor sports enthusiasts, followed closely by the "post-80s" cohort at 32.5%. These two groups have become the primary drivers of participation in outdoor sports activities. Owing to their greater purchasing power, there is a heightened demand for outdoor sport products such as apparel, footwear and equipment among younger consumers. The trillion-dollar Chinese outdoor sports market has attracted domestic and foreign fashion clothing, sports equipment, luxury goods, and sportswear brands to actively enter and participate in the market.

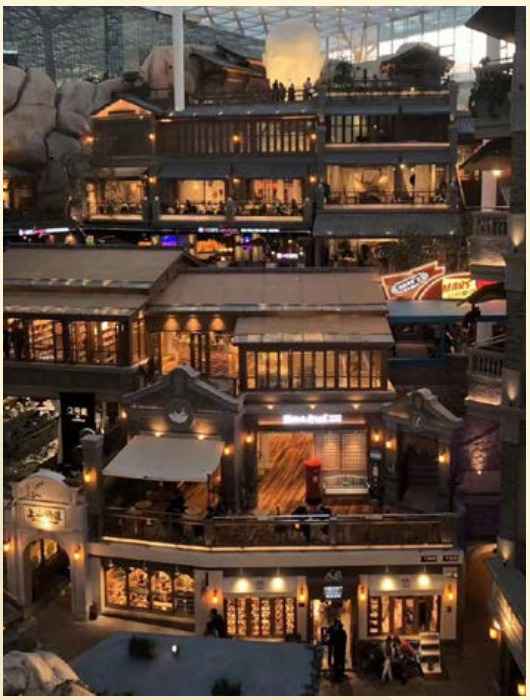
Numerous international sportswear brands are intensifying their investments in China and accelerating their store expansion efforts to capture larger market share in recent years. According to incomplete statistics, more than 40 international sportswear brands are optimistic about the Chinese outdoor sports consumer market and plan to continue their store expansion in 2024 (Figure 18). What's more, some sportswear brand stores not only create immersive simulated outdoor experiences, but also use new technologies such as 3D, AR, VR, AI, etc. to provide consumers with novel interactive experiences.

Figure 18: Expansion intention of sportswear brands in China (2024)



Source: Cushman & Wakefield Research

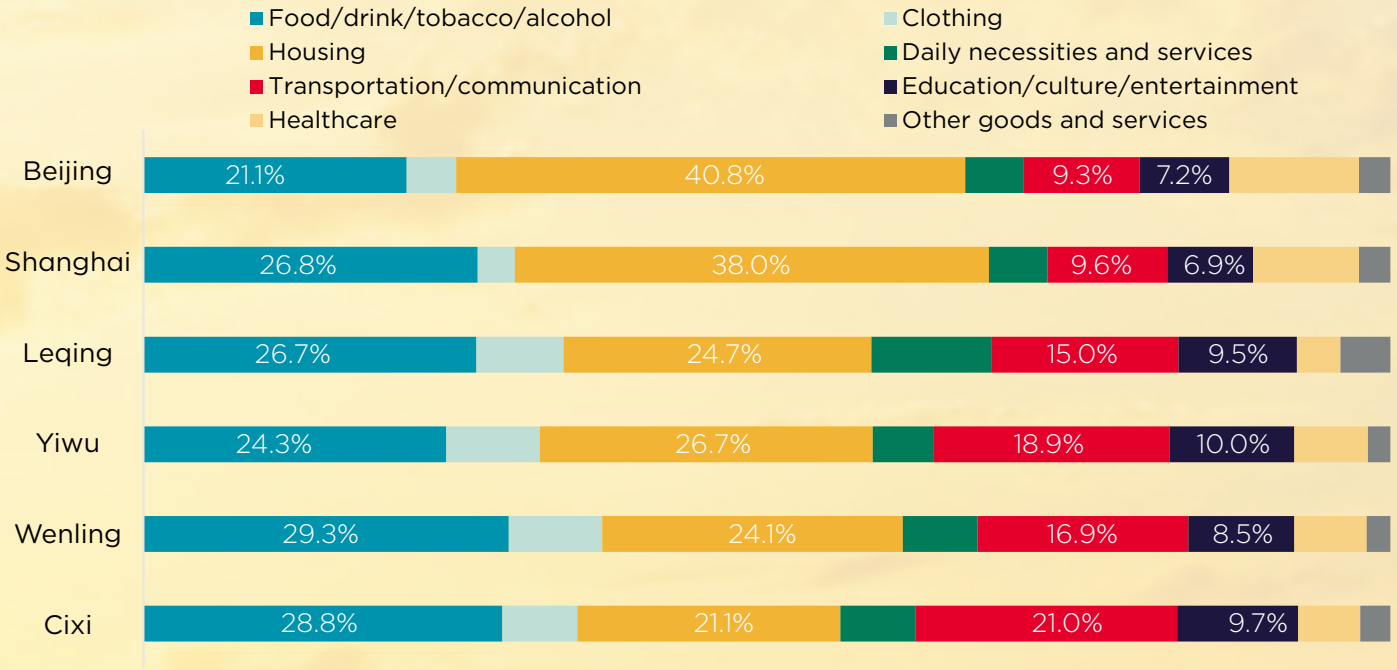
1.5 The upgrading of county-level consumption



In recent years, with the rapid development of China's county-level economy, the consumption potential of urban residents in counties has been gradually unleashed. By 2023, the number of counties in China with a GDP of more than RMB100 billion has increased to 57. Among them, 10 counties have a GDP of more than RMB200 billion. The retail sales of consumer goods in counties increased by 5.3% y-o-y, accounting for 40.1% of China's total retail sales of consumer goods in Q1 2024.

Compared with big cities, residents in counties generally do not have to bear high mortgage or rental costs, which means they have more disposable income for consumption. Using 2022 urban housing consumption expenditure data as an example, housing expenditure accounted for around 40% of the total consumption expenditure in Beijing and Shanghai in 2022, which is the largest part of the expenditure. Conversely, in economically robust counties such as Leqing, Yiwu, Wenling and Cixi, residential expenditures accounted for only about 25%. Additionally, the counties exhibited significantly higher proportions of expenditure on transportation/communication and education/culture/entertainment compared to Beijing and Shanghai (Figure 19). This trend is closely associated with developed local private economies and widespread car ownership among residents in counties.

Figure 19: Comparison of consumption expenditure structure among urban residents in Beijing, Shanghai and some economically robust counties (2022)



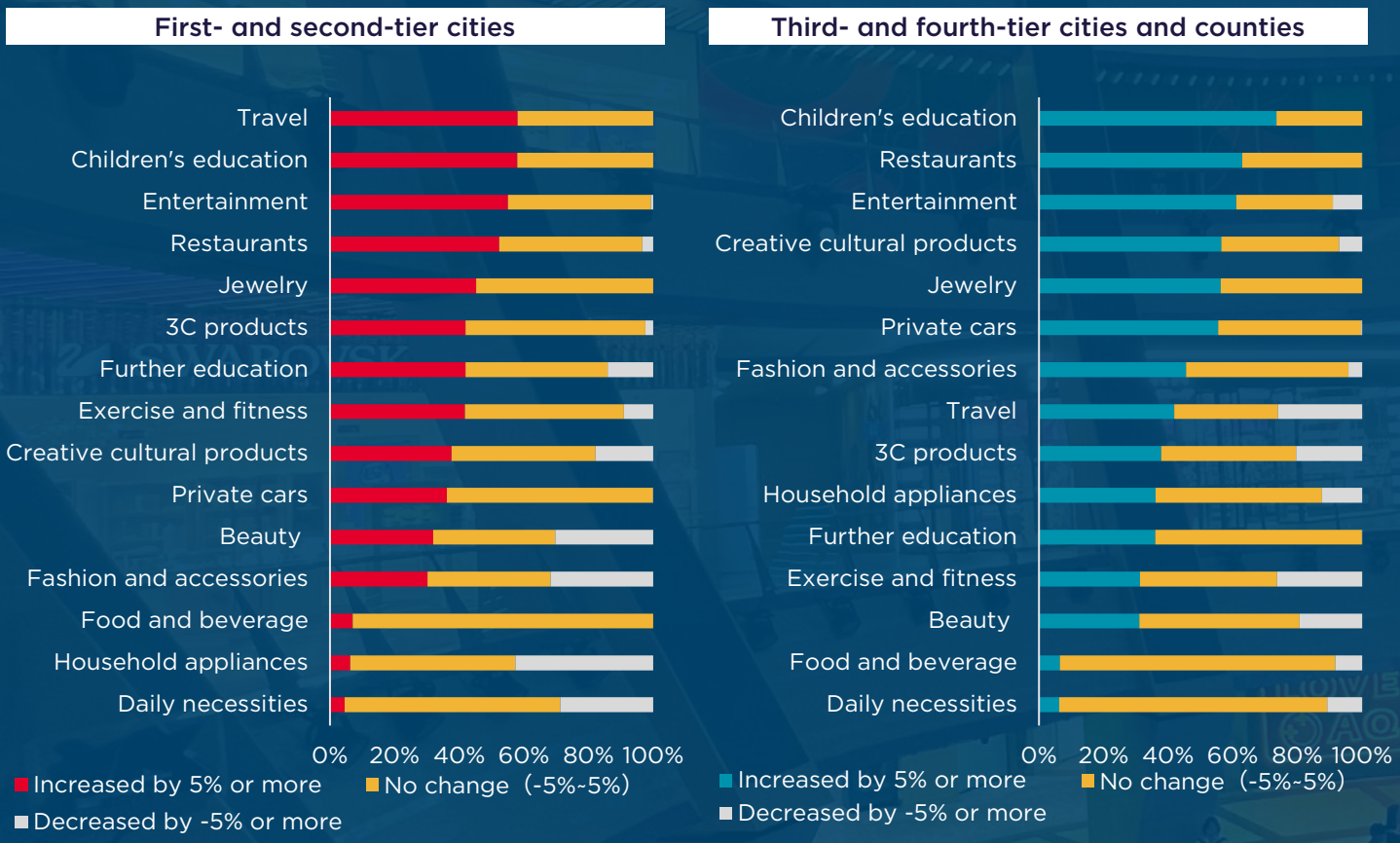
Source: Statistical Bureaus in China's Cities and Counties, Cushman & Wakefield Research

Looking at different tier cities, the consumption structure of residents in China's first- and second-tier cities remains comparatively steady. Consumers in these cities are more willing to spend on spiritual consumption, no longer overconsuming for vanity. Meanwhile, consumers in third- and fourth-tier cities and counties are more concerned about quality and personalisation of goods. They have a higher acceptance and demand for emerging brands and products.

According to Cushman & Wakefield Research, more than 40% of respondents to a survey we conducted of first- and second tier cities' consumers plan to increase spending on travel, children's education, entertainment, restaurants, creative cultural products, jewellery, 3C products, further education, and sports and fitness in 2024. More than 30% of the respondents plan to decrease spending on household appliances, fashion and accessories, and beauty products (Figure 20). Some respondents to the survey said they spent less on luxury as they preferred to buy personalised, useful, high-quality and inexpensive goods.

Moreover, more than 40% of the respondents in Chinese third- and fourth-tier cities and counties plan to increase spending on children's education, restaurants, entertainment, jewellery, private cars, fashion and accessories, and travel (Figure 20). Thanks to the popularity of social commerce and the improvement in logistics infrastructure in China, people can easily get fashion trend information and buy the latest popular goods. Thus, the consumption demand for creative cultural products, private cars, fashion and accessories continues to grow among consumers in third- and fourth-tier cities and counties.

Figure 20: Changes in Chinese consumers' willingness to spend in major retail consumption sectors over the past five years (2019 and 2024)



Source: Cushman & Wakefield Research

Due to the enormous consumption potential and the lower operating costs, more and more international brands, well-known investors, and large shopping centre developers are expanding their business in the fourth-tier cities and counties. Since 2022, many well-known brands such as Coach, Uniqlo, Pizza Hut, Haidilao, Starbucks, Heytea, H World Hotel Group, etc. have accelerated their expansion in China's county areas. What's more, these brands have adapted to meet the needs of the county consumer market through different strategies to achieve sustainable business development and expansion.

Moreover, with the increasing consumption demand of residents in counties in China, residents are eager to be exposed to more new retail scenarios and high-quality service experiences. The "one-stop" shopping centre has become the mainstream of the county-level retail property market. According to incomplete statistics, the stock of retail properties in China's fourth-tier cities and counties, which has a GFA of above 30,000 sq m, now exceeds 86.3 million sq m.

In this context, the county-level consumer market has become an important component of China's consumer market which has considerable "new blue ocean" business potential to drive domestic consumption growth.

Looking ahead, as the disposable income of Chinese residents increases, their consumption demand will continue to change. In view of this, China's consumption will continue to maintain momentum and grow.

Unlocking consumption, to push potential

Driven by new consumption trends, shopping centres in China have actively adopted new technologies and innovative business models to create entertainment, experiential, social, and fine-service retail spaces. In addition, shopping centres have also strengthened the cooperation and linkage with other consumption modes by combining their retail offering with culture, music, art, drama and nature to create a unique and immersive shopping experience space.

2.1 "Non-standard shopping centres" – A new solution for urban renewal differentiation

Figure 21: The current stock of pedestrian streets and retail properties in China (April 2024)

2,116 pedestrian streets,
where retail space is above 20,000 sq m;
The total inventory of pedestrian streets now exceeds 100 million sq m

7,068 retail properties,
where the GFA is above 30,000 sq m;
The total inventory of pedestrian streets now exceeds 549 million sq m.

At present, the commercial real estate market in China has transitioned from a period of incremental development to one focused on renovating and upgrading existing properties. The upgrading and renovation of aging retail properties has become an important issue in the Chinese commercial retail real estate industry. According to incomplete statistics, there are more than 2,116 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 7,068 retail properties with a GFA of over 30,000 sq m in China. The total inventory of retail properties now exceeds 545 million sq m (Figure 21).

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

Innovating new retail offerings through renovating existing retail properties is an important direction for the development of commercial retail real estate in China. Most shopping centres in China undergo brand mixture adjustments twice a year, and update their facilities every 3-5 years, in order to keep up with China's market change. Due to a large amount of market participants and the fast pace of market development, brands and shopping centres must possess strong innovation capabilities and an efficient supply chain system to survive and develop in the Chinese retail market.

In Q1 2024, seven renovated retail projects reopened in China's first- and second-tier cities, injecting approximately 1.03 million sq m of refurbished retail space into the market (Figure 22). These re-opened projects have introduced to the market many "non-standard shopping centres". With their unique spaces and innovative business models, they bring new shopping experiences to consumers, while also bringing more possibilities to the retail property market in China.

Figure 22: Renovated shopping centres which opened in Q1 2024 in China

City	Project Name	Name used before	Opening date	GFA
Foshan	Qiaoying Xingyuanhui Start	Xiqiao Agile Plaza	01/01/2024	60,000 sq m
Shenyang	Super Outlets	Red Star Macalline	18/01/2024	250,000 sq m
Wuhan	CCI Shijieli Shopping Mall	Shopping Mall	26/01/2024	223,500 sq m
Chongqing	Wanda Plaza	International Motorcycle City	26/01/2024	136,000 sq m
Shijiazhuang	Beiguo Future City	Xiangyun International	01/02/2024	229,000 sq m
Beijing	Huaxia Hui	Jimei Plaza	01/03/2024	44,000 sq m
Tianjin	Tedahui JD Mall	Nankai Jiuce City Square	16/03/2024	87,000 sq m

Source: Winshang's big data monitoring, Cushman & Wakefield Research

What is a "non-standard shopping centre"?

A "non-standard shopping centre" is a new form of retail property when compared to conventional shopping centres and department stores. This new form of retail property adopts a "non-standard" design concept, by breaking through the traditional design concept and taking a "people centred" design approach.

The role of "non-standard shopping centres" in the market

Given the amount of supply of traditional single-themed shopping centres and how customer tastes are changing in China, a shift in shopping centre space design and operational philosophy is taking shape by moving towards a "non-standard shopping centre" design and operation concept.

As China's urban development enters a new phase, some old factories, park facilities, ancient towns, old department stores and underground plazas require renovation and function conversion. These buildings often face challenges such as limited space and outdated facilities, making it difficult to meet the demands derived from modern commercial operations. "Non-standard retail property" can effectively overcome these spatial limitations by implementing innovative design and transformative plans to create distinctive retail spaces from these properties. "Non-standard retail property" not only enhances the efficiency and value of aging properties, but also injects new vitality into urban development. For example:

- **Semi-underground park retail property** – Chengdu REGULAR has reconstructed the underground plaza of Dayuan Central Park to add commercial value. This semi-underground space of "non-standard retail property" has been built into one public art space, three sunken outdoor gardens, and more than 20 designer stores. The project is a retail space with natural landscape above ground and fashion retail below ground.

- **Historic cultural shopping blocks** – Wuhan HAN ZONE has grasped the concept of "shaping city with culture" and created a new form of commercial space that sits between tradition and innovation. Together with historical sites such as Guqin Terrace and Guiyuan Temple, Zhangzhidong Museum, Yuehu Park, Qintai Art Museum and Qintai Grand Theatre, the project forms a riverside shopping block full of Wuhan's history.

- **Designer brand shopping blocks** – Chongqing TEST BED 2 is an urban renewal project related to the Chongqing II Printing Factory. A group of creators related to art, design, planning, branding, and media gathered and hatched the plan of regenerating The Printing II Factory and blending it with culture and creation. At present, the TEST BED 2 is 30% occupied by designer brands and has held music and art activities. The customer flow to TEST BED 2 has maintained a rapid growth of more than 40% since opening.

With the promotion of urban renewal policies and the intensification of competition in the retail property market, it has become an inevitable trend for aging retail properties in China to renovate into new space through renovation and transformation. Looking to the future, we can expect to see more innovative and distinctive urban renewal projects inject new vitality into urban development in China.

2.2 “Black technology” - Creates new consumer experiences

With the popularity of instant retail, social retail and smart stores, the retail industry in China is undergoing a revolution driven by “technology +”. The owners of shopping centres have quickly realised the importance of high-tech and have now begun to try to use “technology +” “black technology” (or technology which pushes the boundary of tech sophistication) to better manage their stores, improve customer satisfaction and create personalised and differentiated shopping experiences.

Figure 23: The penetration rate for intelligent applications in shopping centres in first- and second-tier cities in China (April 2024)

Source: Cushman & Wakefield Research

Today, smart parking, shopping centre mini programmes, QR codes and ordering, smart membership reward points, AR shopping guides and other intelligent applications have gradually become “standard tech” for bricks-and-mortar retailers. According to Cushman & Wakefield, the penetration rate for smart parking, shopping centre mini programmes, and smart membership reward points in shopping centres in China’s first- and second-tier cities has reached more than 90%, while the penetration rate for QR codes and ordering and AR shopping guides is 62% and 24%, respectively (Figure 23).

“Technology +” has brought more solutions to shopping centres in China to break free from the bounds of “homogenization”. Retail properties now are transforming from simple shopping venues into all-encompassing experience centres through technology landscaping, digital operations, AI and other black technologies – providing customers with unprecedented innovative goods and services. For example:

“Technology + exhibition” – Beijing SKP-S tells a complete story about life one hundred years after people settle on Mars under the theme of “Digital - Future”. The shopping centre is also a retail space that brings people a new experience from the perspective of the “five senses” – sight, sound, smell, taste and touch.

“Technology + scene” – Shanghai Art Park has installed a 123 sq m naked eye 3D mapping giant screen and 33K projection matrix. It regularly hosts digital art exhibitions consisting of “light and shadow conformations”.

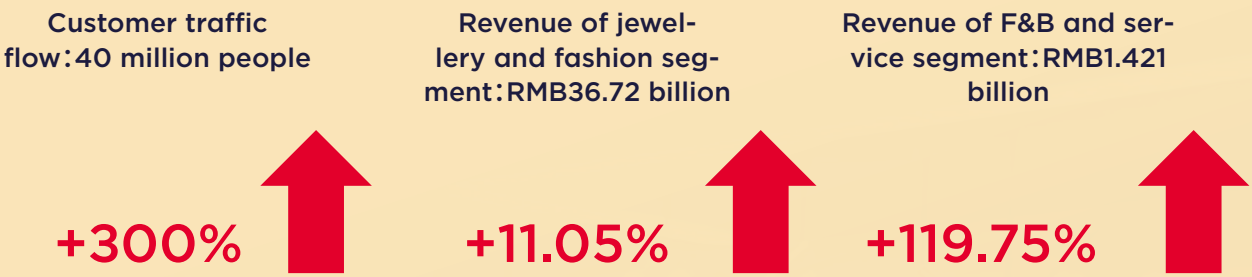
“Technology + brand” – Hangzhou Wensan Digital Living Block is the first digital living project in China. A number of immersive digital experience stores have been opened in the mall, including AR glasses brand Rokid’s world’s first brand flagship store, NetEase MR Digital Entertainment Hall, “Scent Kingdom” digital scent hall, a smart pharmacy, a smart supermarket, and a smart bookstore.

“Technology + operation” – Shenzhen Zhuoyue Centre is equipped with a video surveillance system at the main entrances and core public areas and has a passenger flow monitoring function. In the shopping centre, energy consumption management, air monitoring, electrical equipment operation management, fire monitoring and other operations and maintenance can be viewed and controlled with a “screen”.

“Technology + service” – The eco-friendly toilets at Taikoo Hui in Guangzhou have adopted water-saving toilets and vacuum toilets to reduce energy and water waste. The bathroom mirror is equipped with an electronic indicator screen, which can display information such as the weather and real-time traffic conditions.

Driven by “Technology+”, retail properties in China are undergoing transformation on multiple levels. Consequently, an increasing number of shopping centres are incorporating black technology to enhance the customer shopping experience, increase customer foot traffic and drive sales revenue. For instance, Yu Garden Mall combines the old Shanghai culture with smart retail. It utilises technological innovation means to create a smart shopping area. In 2023, Yu Garden Mall attracted nearly 40 million visitors, an increase of 300% over the previous year. Moreover, the jewellery and fashion segment of Yu Garden Mall achieved revenue of RMB36.72 billion in 2023, up 11.05% y-o-y, and the revenue of the F&B and services segment was RMB1.421 billion, up 119.75% y-o-y, with a gross profit margin of 66.83% (Figure 24).

Figure 24: Business performance of Yu Garden Mall (2023)



Source: Yu Garden Mall, Cushman & Wakefield Research

Through the application of high-tech, shopping centres in China are now more accurately grasping the relationship between people, goods, and retail space, thereby improving the operational efficiency and cost control of shopping centres in the country, and bringing consumers a more convenient, comfortable, and personalised shopping experience.

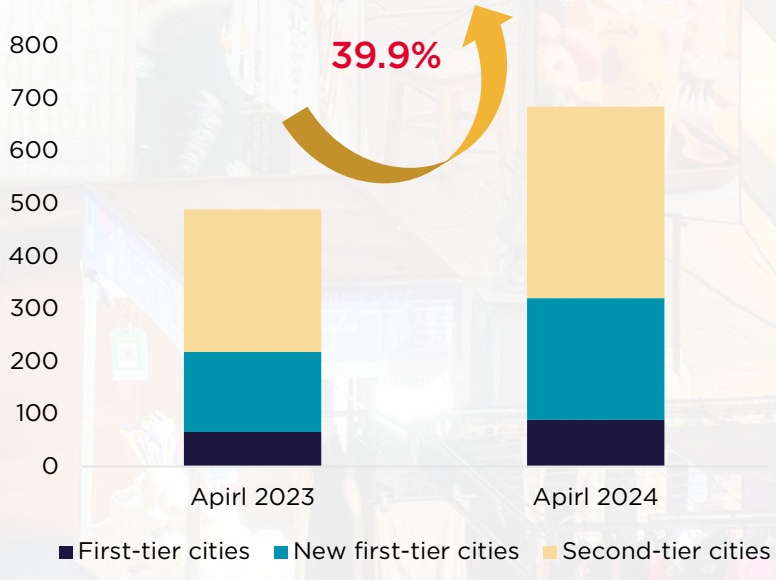
2.3 Creative fairs - Add vivacity to the shopping experience

Fairs in China have a history of over a thousand years and are interconnected with culture and heritage. They not only serve as a place for commodity exchange, but also as a gathering place for social activities. In ancient times in China, fairs were often closely associated with temple fairs, village markets, etc. These fairs were not only places where farmers and craftsmen sold their products, but were also important platforms for religious worship, cultural exchange, etc. With the passage of time, the form and content of fairs have been constantly updated and developed.

Nowadays, the traditional fairs with homogeneous products and lack of unique features are no longer able to meet the needs of consumers for personalisation, experience, and social contact. Fairs now feature thematization, specialization, and cross-border integration, transforming themselves into an integrated space that brings together various elements such as culture, art, music, socializing, entertainment, and shopping.

Today, creative fairs in China have sprung up like mushrooms in city streets, shopping centres, tourist attractions, and cultural venues, not only promoting the development of the retail market but also enriching the spiritual life of Chinese consumers. According to incomplete statistics, the number of creative fairs in first-tier cities, tier 1.5 cities, and second-tier cities in China reached more than 680 in April 2024, up 39.9% from the same period in 2023 (Figure 25).

Figure 25: Number of creative fairs in first-tier cites, tier 1.5 cities and second-tier cities in China (April 2023 and April 2024)



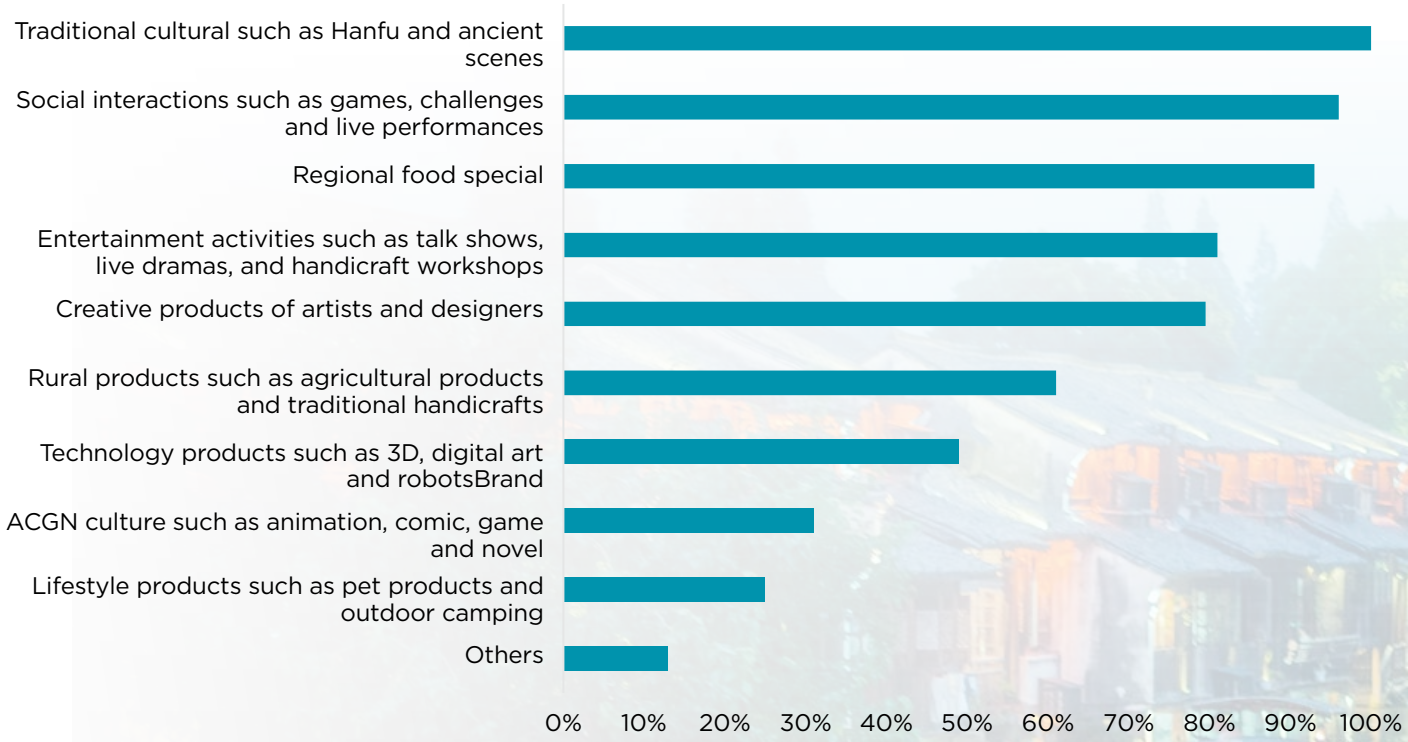
Source: Cushman & Wakefield Research

In the fast-paced and high-pressure urban life, people's pursuit of emotional value is deepening in China. Creative fairs provide urban residents with an excellent place to relax and experience the joy of life. While selecting goods, consumers can also feel a strong sense of community belonging.

Compared to concerts, art exhibitions, and sports competitions that require the purchasing of tickets to experience the occasion, creative fairs, as part of offline retail, have a lower participation cost. Consumers do not need to pay additional fees or make complex preparations; they can simply step out of their homes to immerse themselves in a colourful market to gain emotional satisfaction.

In addition, the creative fairs also provide consumers with an array of goods and services to choose from. Whether it's handicrafts, food and snacks, original designer clothing, vintage goods, Hanfu photography, concerts, etc., creative fairs can meet the different needs and preferences of consumers. This diversity not only increases the shopping pleasure of consumers, but also promotes the exchange and collision of different creativity and art. According to Cushman & Wakefield Research's survey, traditional culture, social interactions, regional food cuisine, entertainment activity and the artist and designer products are the five themes that Chinese consumers most expect to be offered by creative fairs (Figure 26).

Figure 26: Chinese consumers' expectations on creative fairs (2024)



Source: Cushman & Wakefield Research

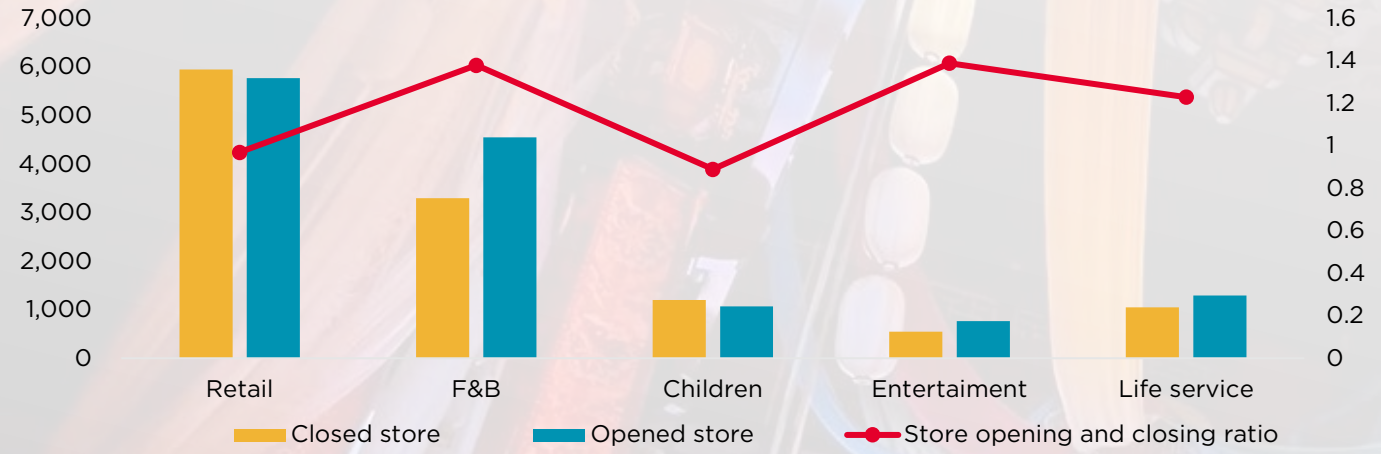
As the themes of creative fairs become more diverse, it is imperative to further explore the economic benefits of the fair economy. Using the atrium or vacant public space in shopping centres to carry out fair activities can not only maximise the use of shopping centre space, but also complement the original retail format, thereby effectively attracting more customers.

Shopping centres in China now not only focus on the themes of creative fairs, but also extend the layout of the fairs to more scenarios through the linkage of specific retail sectors. Some shopping centres combine creative fairs with bookstores, cinemas, galleries, and other retail offerings, enhancing the cultural and artistic aspects of creative markets and linking them to shopping centres. This cross-border integration model not only enriches the retail format and content of shopping centres, but also provides consumers with more abundant shopping and experience choices.

2.4 New performing arts spaces - A new driving force for consumption

In the past year, the customer flow of shopping centres in China has shown a positive trend. However, the visiting rate and order rate of the pure retail sector is relatively weak, compared with the F&B, entertainment and experiential retail sectors. Therefore, the retail brand expansion speed has not been as fast as F&B, entertainment and life services brands in China of late. According to Winshang's big data monitoring, there were approximately 200 prime shopping centres in 11 cities in 2023, with over 13,000 new stores opened and nearly 12,000 new stores closed. The opening and closing ratio were 1.11, showing a recovery trend. Among the five major retail sectors, the opening and closing ratios of F&B, entertainment, and life services all exceeded 1, indicating the positive development trend. The retail opening and closing ratio is close to 1, a slight contraction. The children's retail sector saw the weakest performance (Figure 27).

Figure 27: Number and ratio of shop opening and closing within selected shopping centres in 11 cities in China (2023)



Source: Winshang's big data monitoring, Cushman & Wakefield Research

As a new form of store entertainment retail, new performing arts spaces have been bringing more attention to shopping centres in China. These spaces encapsulate a number of aspects, including:

- ※ Being a place for daily life;
- ※ Being a flexible and diverse space;
- ※ Being a place for immersive performance;
- ※ Being a space that is both complex and functional, and;
- ※ Being a place that can integrate with other types of stores in the shopping centre.

For bricks-and-mortar stores in China, offline retail needs to introduce cultural, performing arts, and entertainment retail to meet the spiritual needs of Chinese consumers. These new performing arts spaces not only help enhance the attractiveness and competitiveness of shopping centres, but also allow consumers to feel the warmth of the retail space.

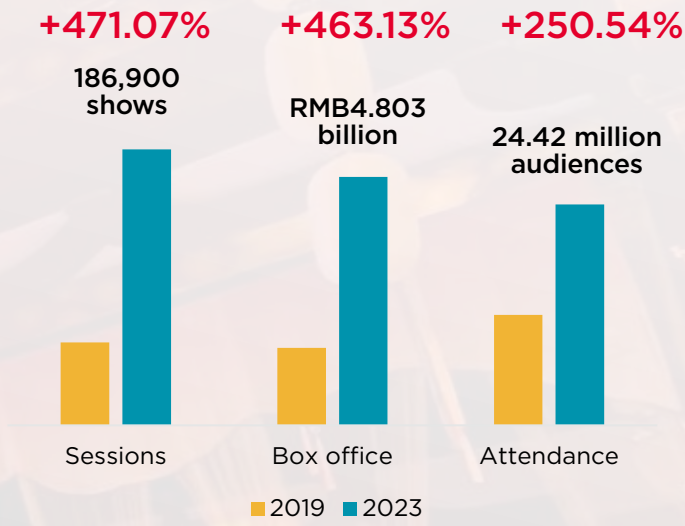
For public cultural spaces in cities in China, a diverse range of performing arts spaces is crucial for enhancing the cultural experience of residents and tourists. A city's performing arts spaces not only include landmark and large theatres, performance centres and showrooms, but also cover unique small performing arts spaces. The retail spaces of shopping centres can provide venues for entertainment and cultural brands to embody their cultural identity.

For performing arts companies, the spatial conditions of shopping centres are more conducive to the performance effects of new performing arts spaces, compared to office buildings. The high ceiling height and large column spacing of shopping centres not only facilitate the display of stores, but also provide more possibilities for the layout

of stages, lighting, and auditoriums. Meanwhile, the spatial layout of shopping centres is usually flexible. This flexibility allows new performing arts spaces to change the layout according to the performance and the audience needs, such as adjusting the number of seats or changing the location of the stage. Shopping centres are the places for people' s daily shopping, leisure, entertainment, and social activities. While watching performances, audiences can also participate in other activities in the shopping centre, which can enhance consumer stickiness.

Nowadays, shopping centres are actively introducing small theatres, concert halls, and Chinese cross talk houses and so on. Concerts, music performances, stage shows, comedy, and Chinese cross talk shows in diverse performing arts spaces have become the major way stores can attract customers to shopping centres. According to the China Association of Performing Arts, the box office revenue from small theatres and new performing arts spaces (including live houses) in 2023 is RMB4.803 billion, up 463.13% when compared with 2019 (Figure 28).

Figure 28: Sessions, box office and attendance of new performing arts spaces (2019 and 2023)



Source: China Association of Performing Arts, Cushman & Wakefield Research

Compared to the audience in large theatres, consumers in small theatres or new performing arts spaces in shopping centres make more temporary and random ticket purchasing decisions. Therefore, new performing arts spaces need to adjust in terms of performance content, pricing, and spatial layout to provide consumers with the ultimate in emotional value through shorter performance durations, lower ticket prices, and more popular content. Taking Mahua FunAge as an example, Mahua FunAge Theatre covers different aspects of performing arts such as the theatre area, the stage form, the performance content and so on, which are different. Mahua FunAge has also collaborated with the F&B brand City Mart to introduce a Mahua FunAge Theatre as a themed F&B space that includes dining, experience, and entertainment. The entire space has then been "packaged" into accommodating shopping centres.

The successful operation of new performing arts spaces in shopping centres is not an easy task. In order to promote the development of this emerging format, shopping centres in China are now providing preferential policies such as rent reduction and decoration subsidies to attract more new performing arts spaces to settle in. These preferential policies provide more choices for new performing arts spaces, allowing them to choose suitable venues and partners more flexibly. Brand owners of performing arts new space and operators of shopping centres still need to further cooperate in the future to jointly promote the development of this cross-format form of retail-related entertainment.

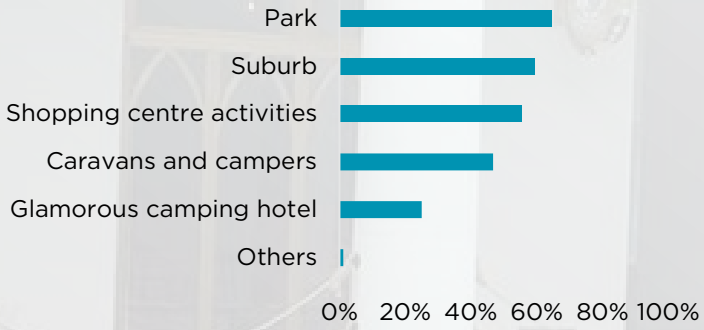
2.5 "Micro vacation" - Offering "relaxed" commercial retail spaces

In the past two years, a new travel style called a "micro vacation" with friends near home has emerged in China. This travel style not only avoids the tediousness of long-term planning and preparation, but also reduces the fatigue of traveling, allowing people to relax and enjoy themselves during a short weekend. Camping, music festivals, city walks, spas, small farms, and pet parks have become new consumption venues for young people. Shopping centres can attract cross-regional customers by utilizing their public spaces to host related themed events, thereby significantly increasing the popularity of the shopping centre.

Camping

Some shopping centres have transformed their rooftop, terraces, outdoor plazas, and atriums to outdoor leisure areas with a refined camping atmosphere. These leisure areas are equipped with coffee, wine, food stalls, as well as live music performances and outdoor movie services. Compared to the hassle of preparing a full set of camping equipment on their own, the convenient camping options available at shopping centres are now popular among young people. According to Cushman & Wakefield's survey, camping themed activities at shopping centres have become one of the main ways for Chinese consumers to go camping (Figure 29).

Figure 29: Main places for Chinese consumers to go camping (2024)



Source: Cushman & Wakefield Research

Citywalk

The term "city walk" in China originated from London in the UK and refers to a casual stroll that explores distinctive scenic areas within a city. It also refers to guided walks following planned routes led by narrators, allowing for a bespoke tour of a city's history, culture and urban landscape. City walks have become increasingly popular among young people in China as a way to explore cities.

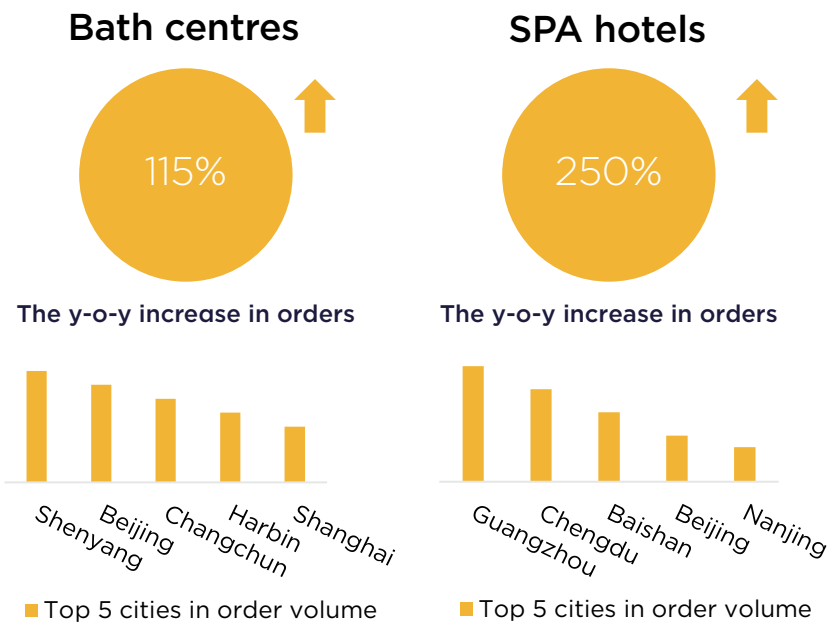
Retro streets and alleys carrying urban memories and cultural significance along with landmark buildings and time-honoured shops have become popular destinations for people in China to visit.

As an emerging element of tourism, city walks in China hold significant commercial potential. Time-honoured brands, retail streets and historical buildings can utilise city walk routes for marketing purposes and effectiveness in connecting with young consumers, thereby enhancing their visibility.

Spa and hot spring hotels

Spas and hot spring hotels in China are no longer limited to traditional bathing services but have introduced more diversified offerings such as KTVs (karaoke), cinemas, bookstores, self-service buffets, water parks, massages, hairdressing, nail care etc., making them into a leisure complexes that offer "eating, drinking, playing, relaxing and bathing". Moreover, recently in China, spas and hot spring hotels have attracted increasing numbers of young people as customers. According to Meituan, since November 2023, orders for spas and hot spring hotels increased by 115% and 250% respectively (Figure 30).

Figure 30: The number of orders for spas and hot spring hotels (January - November 2023)



Source: Meituan, Cushman & Wakefield Research

In summary, "Micro vacations" change the time and space pattern of traditional tourism, making tourists' choices more diversified and personalised. Shopping centres and retail streets not only need to provide tourists with more diversified and personalised products and services, but also need to strengthen business cooperation and linkages with other consumption-stimulating programmes and platforms, so as to promote the development of the retail property market in China.

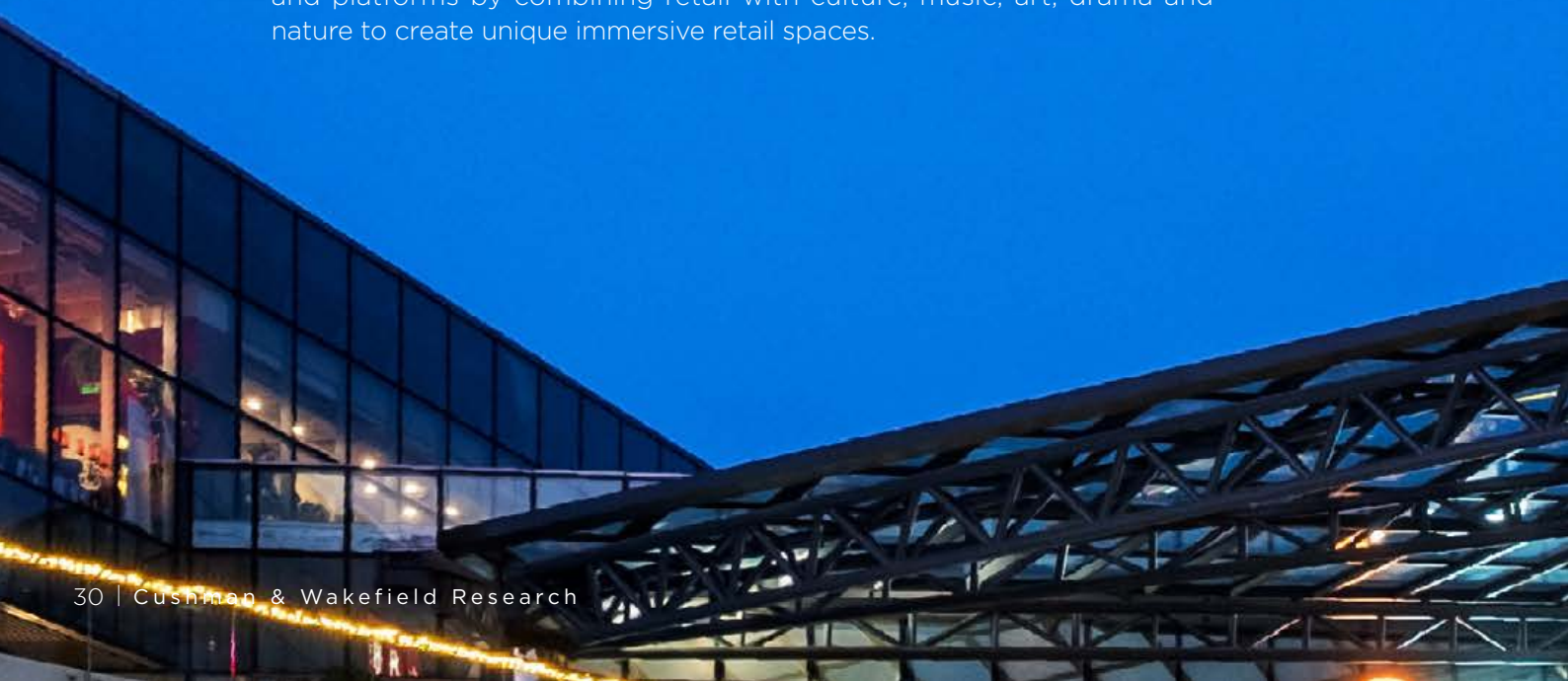
Key takeaways

* With the development of economic and material enrichment, the consumption structure of Chinese residents has gradually shifted from spending on necessity-focused goods and services to spending on leisure-focused goods and services

* The new growth points of China's consumer market are growing. New consumption such as cultural consumption, tourism consumption, digital consumption, green consumption, and health consumption is accelerating. New retail models such as instant retail, social e-commerce and social customer relationship management are also developing rapidly.

* Driven by new consumption trends, shopping centres in China are actively adopting new technologies and innovative business models to create entertainment, experiential, social, and fine-service retail spaces.

* In addition, many shopping centres in China have also strengthened their business cooperation and linkage with other consumption programmes and platforms by combining retail with culture, music, art, drama and nature to create unique immersive retail spaces.



Business contacts

Duke Zhen

Managing Director
Head of Retail Services, China

duke.sq.zhen@cushwake.com

Kelvin Li

Managing Director
East China

kelvin.qw.li@cushwake.com

Amy Meng

Director, Head of Retail Services
North China

amy.y.meng@cushwake.com

Eric Zhao

Senior Assistant Director, Head of Retail Services
Qingdao

eric.zhao@cushwake.com

Leomi Song

Director, Head of Retail Services
Shenzhen

leomi.j.song@cushwake.com

Andy Law

General Manager
Guangzhou

andy.cl.law@cushwake.com

Georgina Guo

Director, Head of Retail Services
Wuhan

georgina.xj.guo@cushwake.com

Ellie Tang

Senior Assistant Director, Head of Retail Services
Chongqing

ellie.zy.tang@cushwake.com

RESEARCH CONTACTS

Sabrina Wei

North China

sabrina.d.wei@cushwake.com

XiaoDuan Zhang

South & Central China

xiaoduan.zhang@cushwake.com

Ivy Jia

West China

ivy.jia@cushwake.com

Rosanna Tang

Hong Kong

rosanna.tang@cushwake.com

Eason Lee

Taiwan

eason.ih.lee@cushwake.com

This report was authored by Shaun Brodie, Head of Great China Research Content and Jane Ji, Associate Director, East China Research. Analysis support was provided by Chao Guan. Proofreading services were provided by Simon Graham.

To better serve our clients our China Research Team has established Centres of Excellence in various focus areas, such as Capital Markets, Industrial, Logistics and Retail. Shaun leads the Research Centre of Excellence for Greater China Occupier Research. If you have any queries related to Occupier Research in Greater China, please contact:

Shaun Brodie

Head of Greater China Research Content

shaun.fv.brodie@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In Greater China, a network of 23 offices serves local markets across the region. In 2023, the firm reported revenue of $9.5 billion across its core services of valuation, consulting, project & development services, capital markets, project & occupier services, industrial & logistics, retail and others. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

Disclaimer

The information contained within this report is gathered from multiple sources believed to be reliable, including reports commissioned by Cushman & Wakefield (“CWK”). This report is for informational purposes only and may contain errors or omissions; the report is presented without any warranty or representations as to its accuracy.

Nothing in this report should be construed as an indicator of the future performance of CWK’s securities. You should not purchase or sell securities—of CWK or any other company—based on the views herein. CWK disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CWK as well as against CWK’s affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

© 2024 Cushman & Wakefield All rights reserved.