

2024 China Retailer Survey: Global Expansion Accelerates

REPORT

CBRE
CHINA RESEARCH

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Preface

Following the central government's relaxation of its pandemic prevention and control policies in early 2023, China's retail and catering brands resumed overseas expansion. CBRE data show a total of 36 Chinese retailers opened their first overseas stores in 2023, with the year witnessing new international openings by catering brands Cotti Coffee, ChaPand and SWEET7; clothing brands Neiwai, Beneunder and UMA WANG; and maternal and child personal care brand Babycare.

Chinese retailers with a pre-existing presence overseas also continued to enter new markets over the course of last year. New openings in 2023 included Heytea's first store outside of Asia in London; Jiumaojiu Group's first Tai Er Suancai Fish store in the U.S. in New York; and POP MART's first direct-operated store in Europe in Paris.

The resumption of overseas expansion by Chinese retail and catering brands is being driven by a number of factors, including the following:

- While China has a huge consumer market, it accounts for less than 25% of global retail consumption. With CBRE's 2022 Global Consumer Survey showing that consumers still prefer offline channels to purchase 70% of commodity categories, the global retail market offers substantial opportunities for Chinese brick-and-mortar retailers.
- As most domestic brands pursuing overseas expansion are leaders in their respective categories and possess mature products, operating models, and supply chains, they are well-positioned to expand abroad. Their high penetration rate in the domestic market is also providing these brands with additional motivation to expand overseas and find new growth engines.
- The rapid development of global social media has built a bridge for brands to expand overseas, ensuring marketing is more convenient and cost-effective and serving as an effective means for brands to engage current and existing consumers and operate retail communities.

Against this backdrop, CBRE conducted a survey of major Chinese retail and catering companies to gauge their intentions, strategies, challenges and opportunities for overseas expansion.

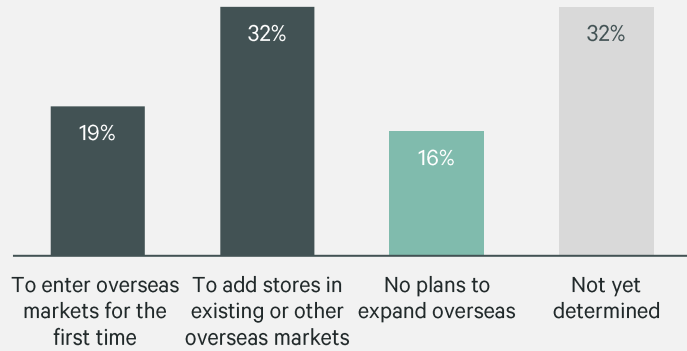


2024 China Retailer Survey: Global Expansion Accelerates

Global expansion intentions

Actively seek overseas expansion opportunities; obtain on-the-ground market information

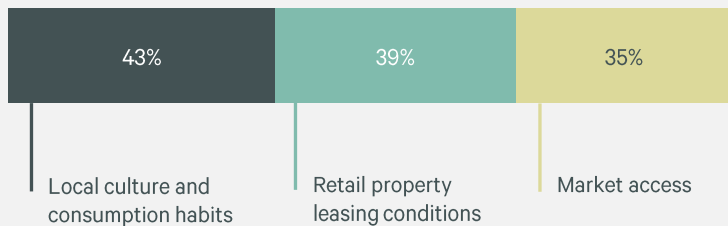
Overseas expansion plans for the next one to three years



Main reasons for overseas expansion



Lack of local information the biggest challenge for retailers expanding overseas



Strategy for overseas expansion

Moderate pace of expansion, focusing on Asia and giving priority to core locations

Expansion plans for number of new stores number in next one to three years



Preference for expansion destinations (Overall and by retail category)



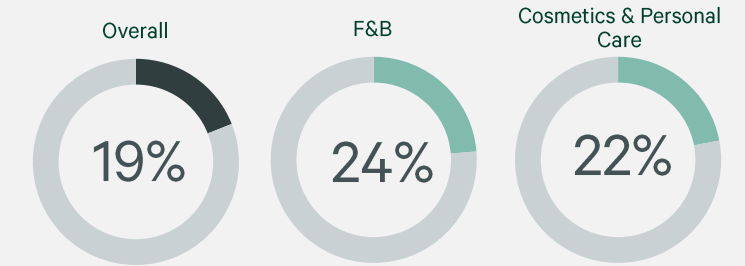
Preference by location and property



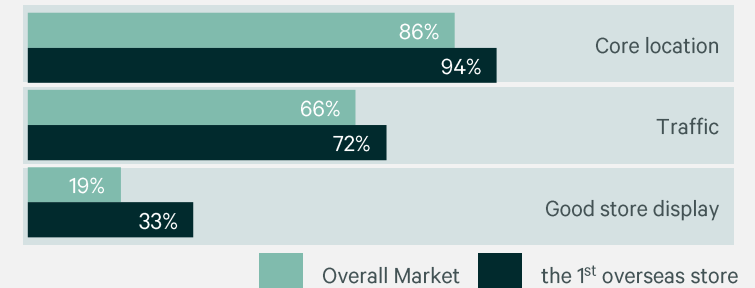
Site selection criteria for first store

Location top of mind for site selection, F&B and Cosmetics & Personal Care display strongest willingness to go overseas for the first time

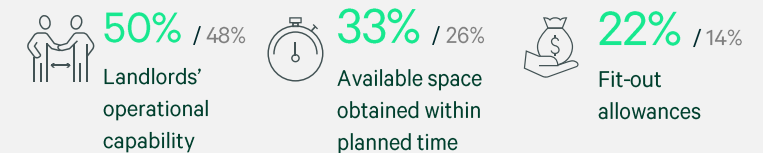
Percentage of retailers planning to open first overseas store in the next one to three years



Requirements for selection of location and property



More attention paid to leasing conditions (the 1st overseas store / overall)



1

Intentions for overseas expansion:

Actively seek overseas expansion opportunities; obtain on-the-ground market information



Chinese retailers seek to go global and expand international influence

More than half of retailers surveyed plan to expand the number of stores or increase store investment in overseas markets in the next one to three years.

- Nearly 20% of respondents plan to enter overseas markets for the first time. Catering and beauty & personal care displayed the strongest willingness to go overseas for the first time, with the percentage of retailers from each category stating their intention to do so being around 5-pps. and 3-pps higher than the average, respectively. Of the 36 first overseas stores opened by Chinese retailers in 2023, 75% were from these two categories.
- 74% of retailers surveyed said that expanding their brand's international influence was the main reason for overseas expansion; a reason that ranked comfortably ahead of all other factors. CBRE expects this trend to result in a stronger focus on crafting an overseas store's design, positioning and image.
- Some 50% of retailers cited greater sales growth potential or higher profit margins in overseas markets as their primary motivation to expand abroad; a belief underpinned by the impressive overseas sales performance displayed by many Chinese brands. These include Xiabu Xiabu, whose same-store sales in China fell by 12% y-o-y in 2023, but achieved growth of 13% y-o-y overseas over the same period. Miniso reported an average annualised revenue decline of 5% y-o-y at its domestic stores in 2023, but sales at its overseas stores grew by 30% over the same period. In addition, the company's overseas stores logged a gross profit margin some 10-pps. points higher than its domestic stores.

Figure 1: What is your company's plan to expand in overseas markets in the next one to three years? (Single choice)

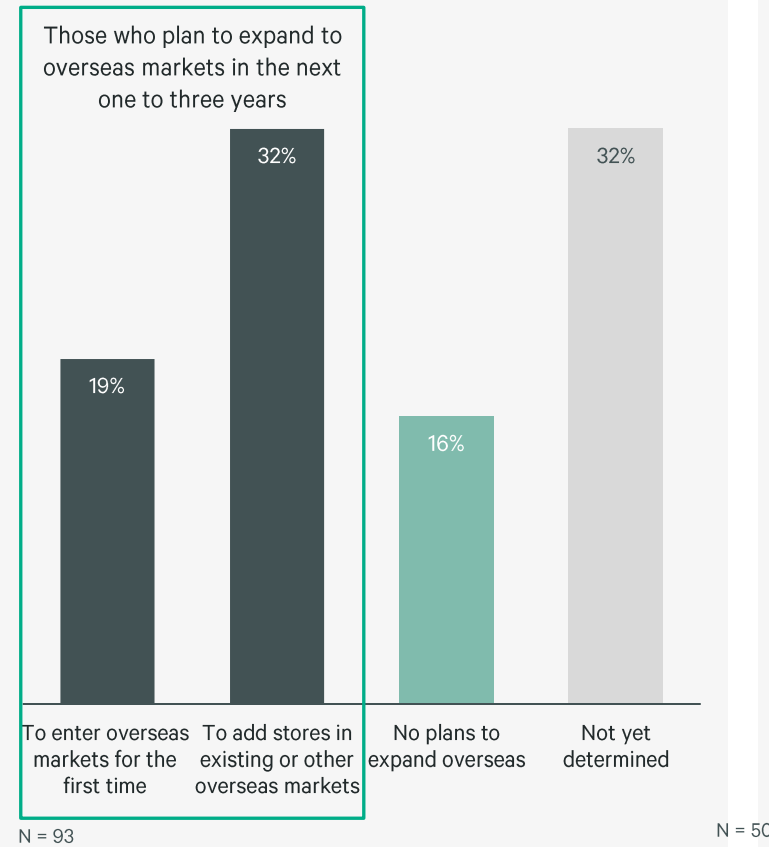
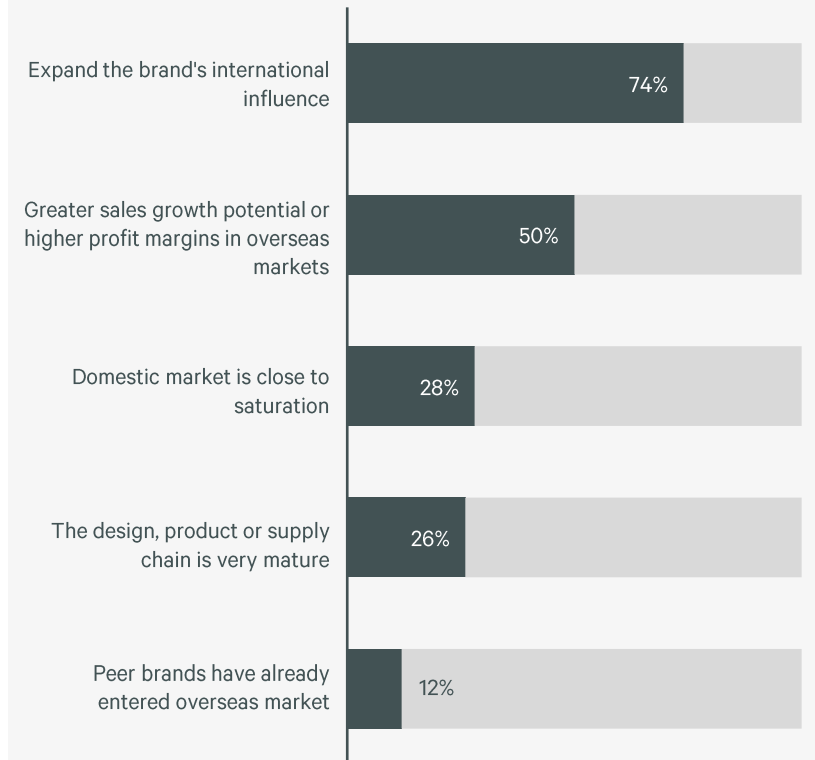


Figure 2: What is the main reason for overseas expansion? (Multiple choices, select up to three)



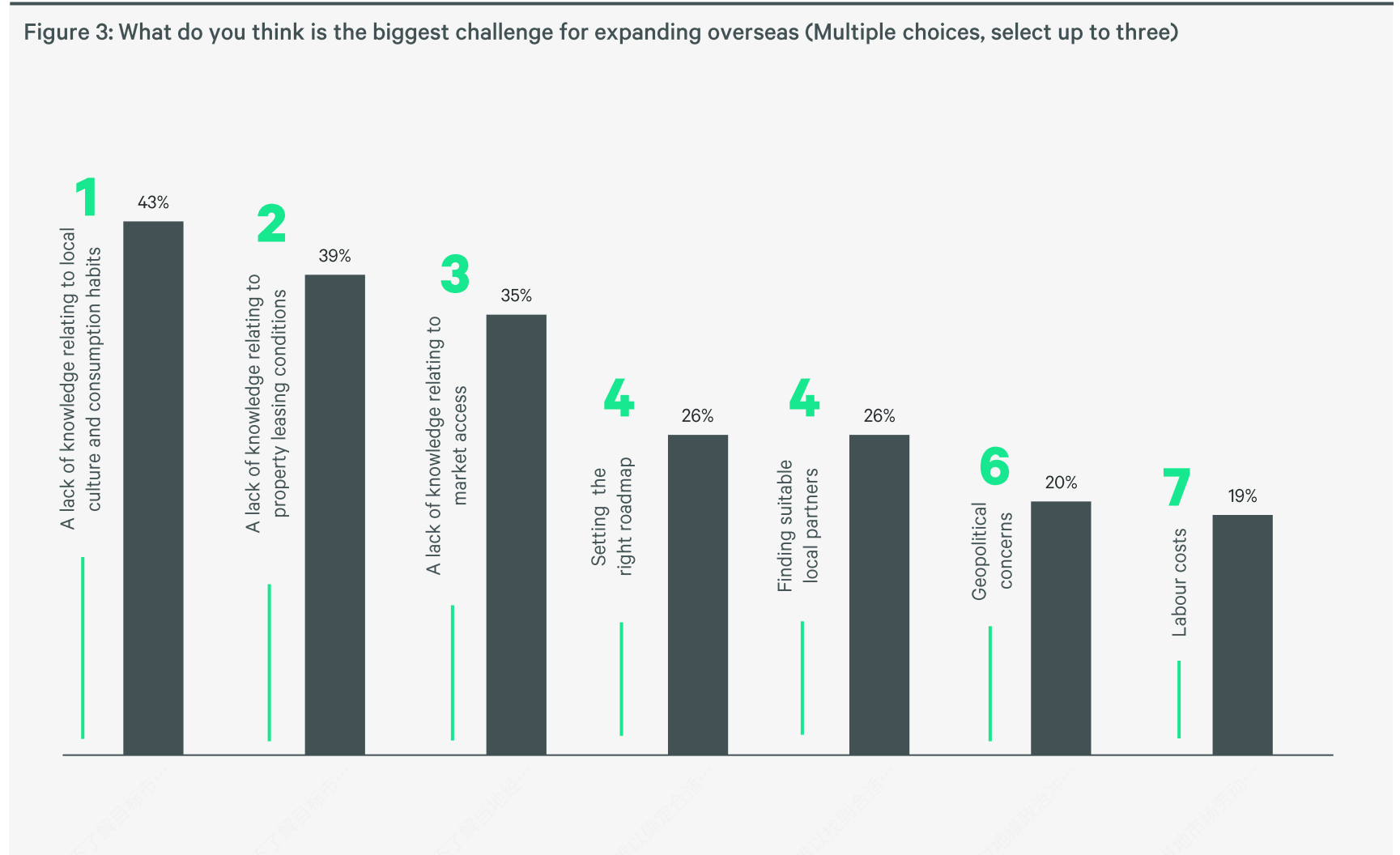
Source: CBRE Research, May 2024

Lack of local information the biggest challenge for retailers expanding overseas

A lack of knowledge relating to local culture and consumption habits; property leasing conditions; and market access were named as the top three challenges to overseas expansion by survey respondents.

- Retailers who have plans to expand overseas are most concerned about the ease of obtaining practical information, including market access (46%), property leasing (42%) and labour costs (29%).
- Retailers who have not or have no plans to expand overseas believe that local culture and consumption habits (42%) are the biggest barriers to doing so. More than a quarter of retailers are troubled by difficulties in finding suitable local partners. CBRE believes that overcoming these challenges and difficulties may drive some of these retailers to join the ranks of those opening stores overseas in future.

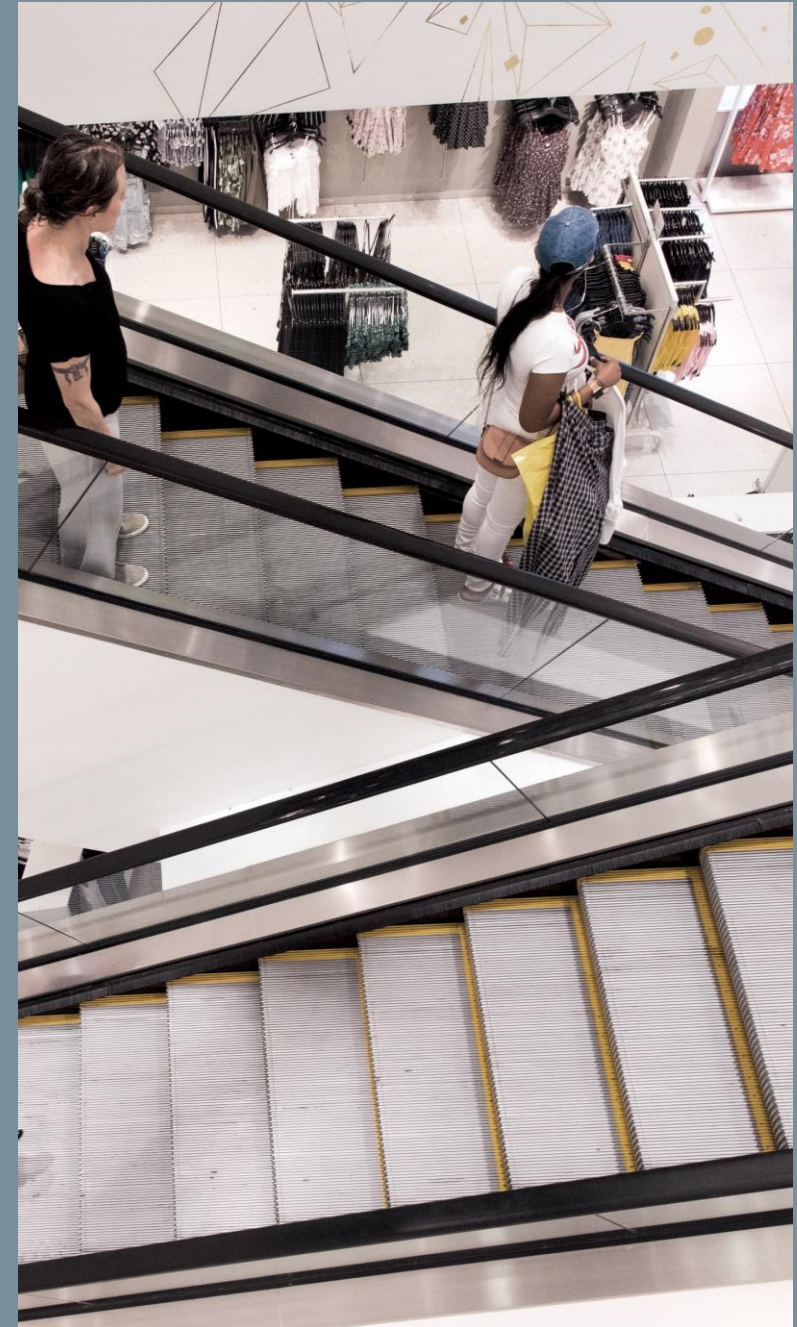
Figure 3: What do you think is the biggest challenge for expanding overseas (Multiple choices, select up to three)



Source: CBRE Research, May 2024

2 Trends in overseas expansion:

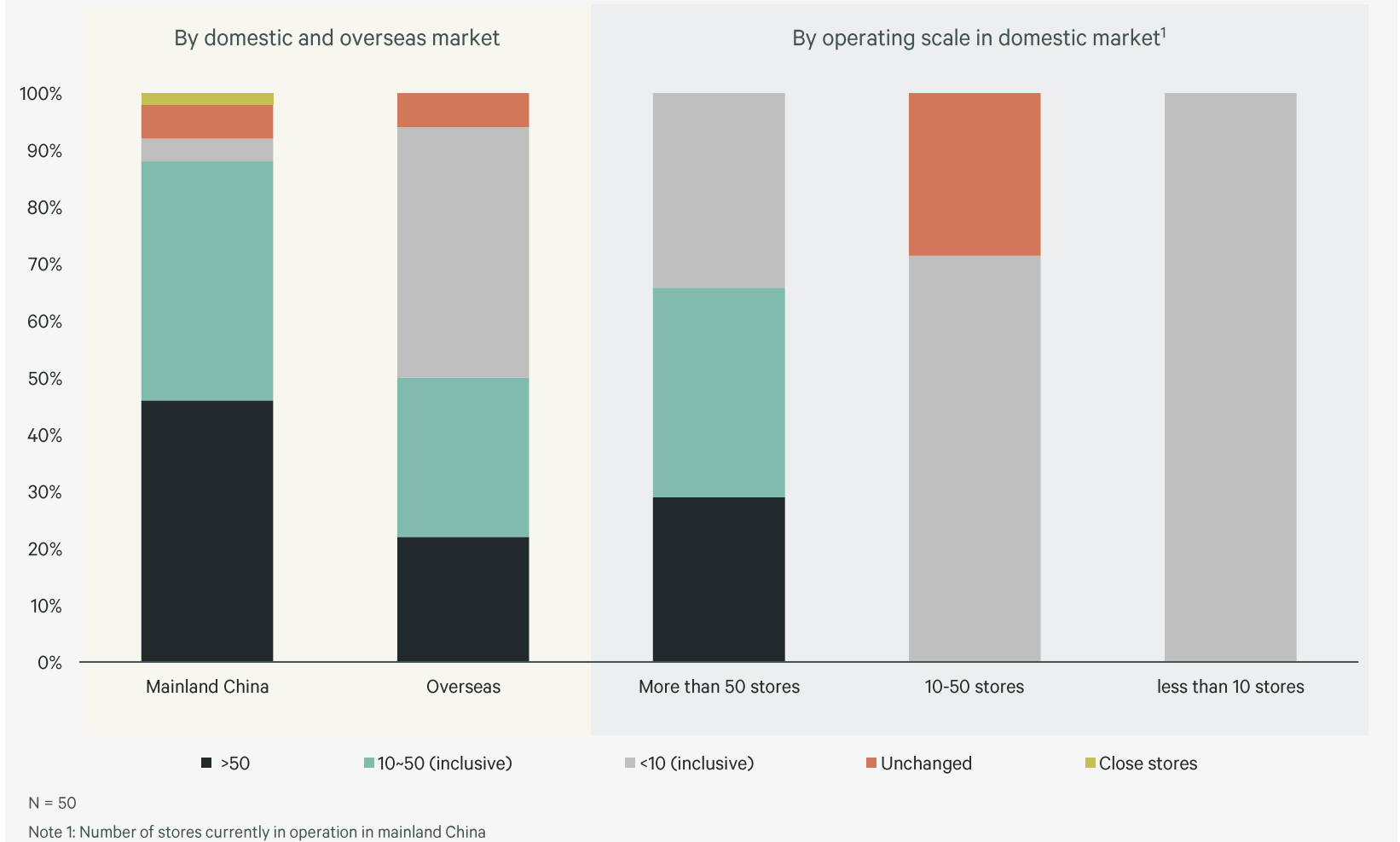
Moderate pace of expansion, focusing on Asia and giving priority to core locations



Overseas expansion continues at moderate pace; brands with mature domestic presence at forefront

- The survey found that the proportion of retailers planning to open more than 50 new stores overseas in the next one to three years was only half those planning to do so in the domestic market, with the rate of expansion overseas also set to lag that in the domestic market. Chinese retailers' limited understanding of international markets has seen them adopt a cautious approach, while those retailers moving forward with opening overseas stores are focusing more on store quality and positioning to achieve the goal of boosting their international influence.
- The scale of Chinese retailers' domestic operations is directly proportional to the speed of their overseas expansion. The survey results show that retailers planning to open more than 50 new stores overseas are all brands with a pre-existing and mature domestic presence. Achieving such a state is closely related to the proficiency of retailers' product research and development; SKU scale; operational capabilities; and supply chain operations.

Figure 4: What is your company's plan for opening new stores in domestic and overseas markets in the next one to three years? (Single choice)



Source: CBRE Research, May 2024

Car showrooms, 3C products and F&Bs spearhead overseas expansion

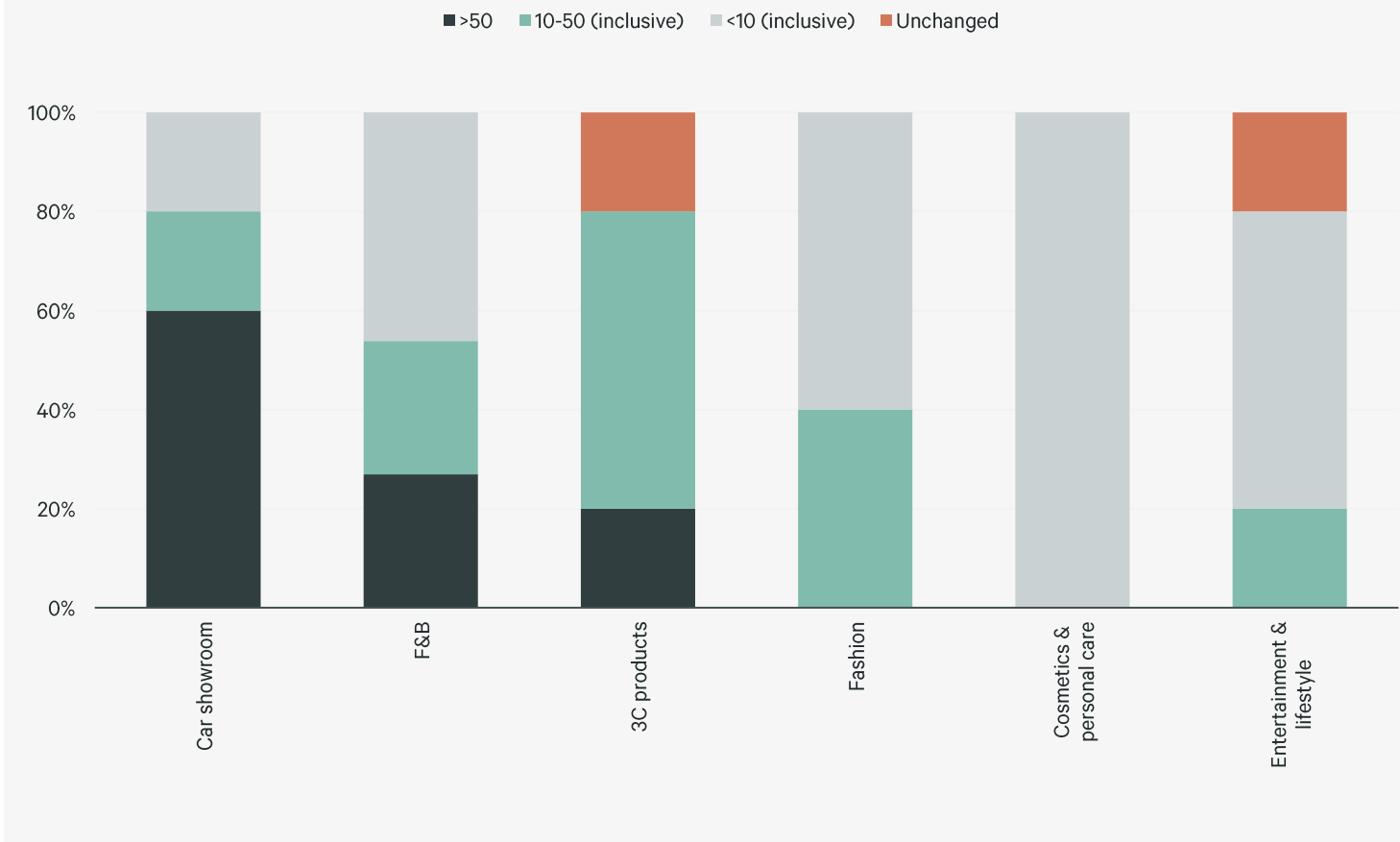
Due to their high sales penetration in overseas markets, car showrooms and 3C (Computer, Communication, and Consumer Electronics) stores are opening at a faster rate, followed by catering brands.

- The rapid expansion of the overseas sales market for Chinese automotive companies and 3C products has laid the foundation for retailers in these categories to open overseas stores for display, sales, and after-sales services. According to the Ministry of Industry and Information Technology, China's automobile exports increased by 58% y-o-y in 2023, making it the biggest exporter of automobiles globally for the first time. The export growth rate of New Energy Vehicles (NEVs) was even faster, reaching 78% y-o-y. At the same time, overseas shipments of major domestic mobile phones² increased from 28% of the global total in 2019 to 39% in 2023.
- The breadth, depth and reach of the Internet and the study abroad trend are the two main catalysts for Chinese F&B brands to expand overseas. The topic "#ChineseFood" was mentioned more than 7.9 billion times on the TikTok platform in 2022, while the number of Chinese students studying abroad in major markets³ recovered from the low of 450,000 in 2020 to reach almost 700,000 in 2023. These trends are highly conducive to cultivating the consumption of Chinese food overseas.

Note 2: Major domestic mobile phone brands include Xiaomi, OPPO, VIVO and Transsion

3: Data from the Chinese Ministry of Education for 2023 is not yet available, so estimates are based on statistics from major study abroad destinations (USA / UK / Australia / Canada / Japan / Germany / France / Italy / New Zealand / Hong Kong SAR)

Figure 5: What is your company's plan for new store openings overseas in the next one to three years? (Single choice)



Some variation in type and size of stores that retail and catering brands plan to open

Figure 6: What types of stores does your company plan to open overseas? What is the size or area of the stores your company plans to open overseas? (Multiple choices, select up to three)

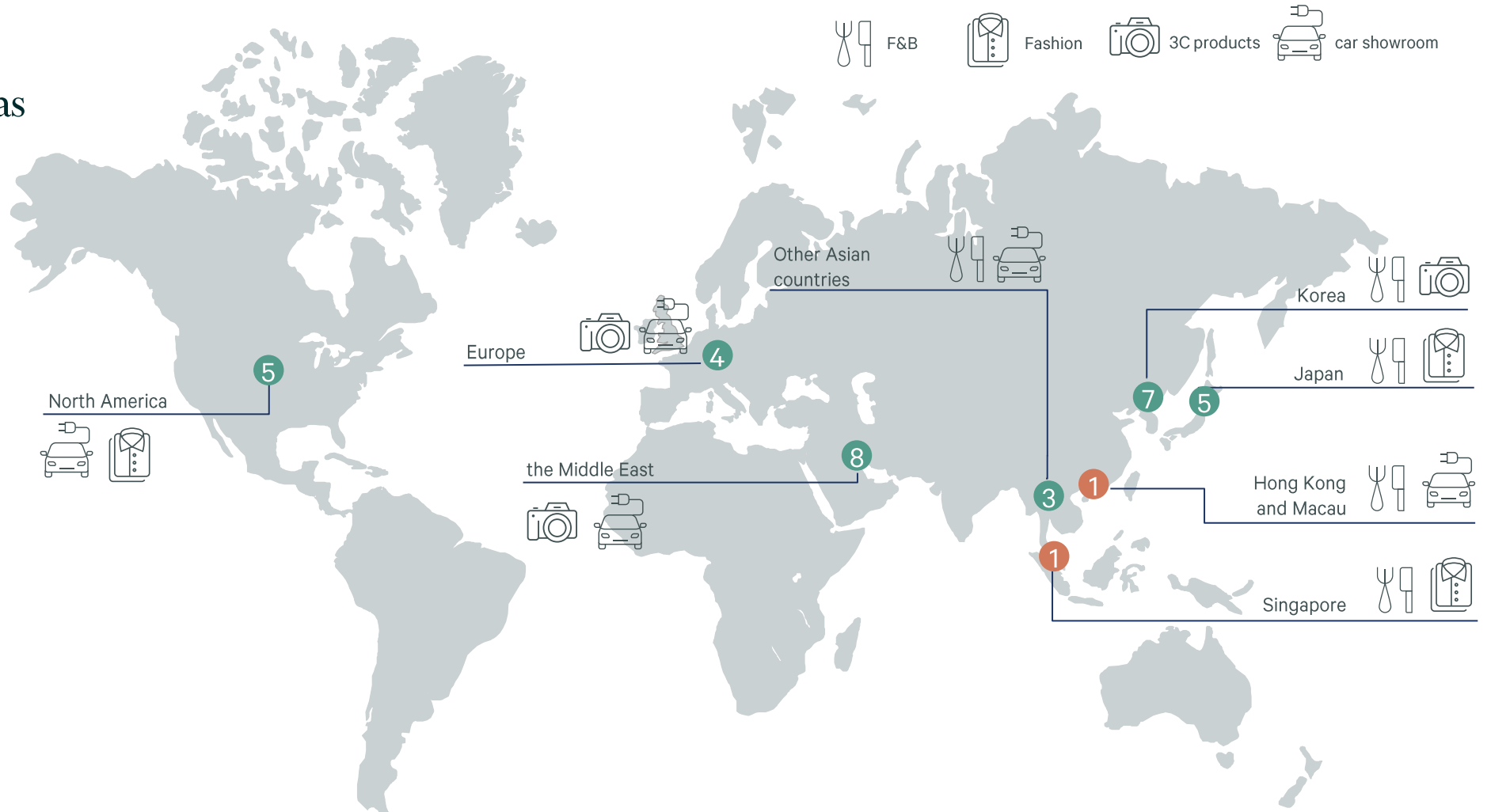
	Type of Stores					Area of Stores (sq. m.)				
	Flagship store	Standard store	Department store counter	Shop in shop	Pop-up store	<100	100~200 (inclusive)	200~500 (inclusive)	500~1000 (inclusive)	>1000
F&B	✓	✓				●	●	●		
Fashion	✓	✓					●	●		
Cosmetics & Personal Care		✓	✓			●	●			
3C Products		✓		✓		●	●			
Car Showroom	✓	✓			✓		●	●	●	●
Entertainment & lifestyle	✓	✓						●	●	●

N = 50

Source: CBRE Research, May 2024

Hong Kong, Macau and Singapore are top destinations for Chinese retailers to expand overseas

Figure 7: Overall ranking of overseas expansion destinations for Chinese retailers and location preferences by different retail categories⁴



More than half of respondents said they would give priority to Hong Kong, Macau, and Singapore for overseas expansion. However, preferences for destination varied across different retail categories.

- Due to the similarity of eating habits and the convenience of supply chain management, restaurant brands' preferred markets for expansion are highly concentrated in Asia, with Hong Kong, Macau and Southeast Asia the most popular.
- Chinese automakers, which now mainly focus on manufacturing NEVs, are reporting strong sales in Europe, the U.S. and Southeast Asia, making these regions popular destinations for setting up new car showrooms.

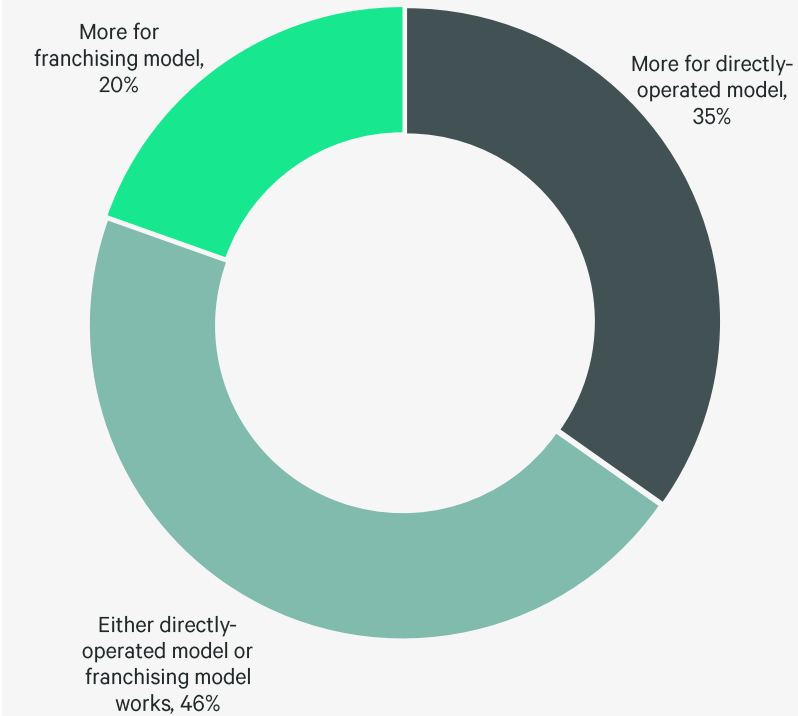
N = 50
 Source: CBRE Research, May 2024

Note 4 : In this survey, cosmetics & personal care and entertainment & lifestyle have not yet shown a significant preference for a destination, so they are not listed on the map.

First overseas stores tend to be directly operated; more retailers adopt franchises for rapid expansion or entering Europe and the U.S.

- The survey did not detect a clear preference for store operation business models; decisions around which depend more on store capacity, opening speed and operating costs.
- 63% of respondents said they chose the directly-operated model when opening their first overseas store. As a first store marks the first step for Chinese retailers to open overseas markets, brands pay far more attention to the extent of investment and precise location of such stores. Choosing the directly-operated model can help retailers better control the quality of new stores and more effectively monitor progress.
- Appropriate scenarios for retailers to choose the franchising model typically occur in markets where retailers need to expand stores quickly; in Europe and the U.S., where this route is more conducive to maximising supply chain efficiency; and in some markets with strict regulatory access requirements.

Figure 8: What is the main business model that your company plans to operate the overseas stores? (Single choice)



N = 50

63%

Of retailers that open overseas stores for the first time choose the directly-operated model.

82%

Of retailers planning to open new stores more than 50 in the next one to three years consider the franchising model.

89%

Of retailers planning to open new stores in Europe, the United States and other Asian markets⁵ consider the franchising model.

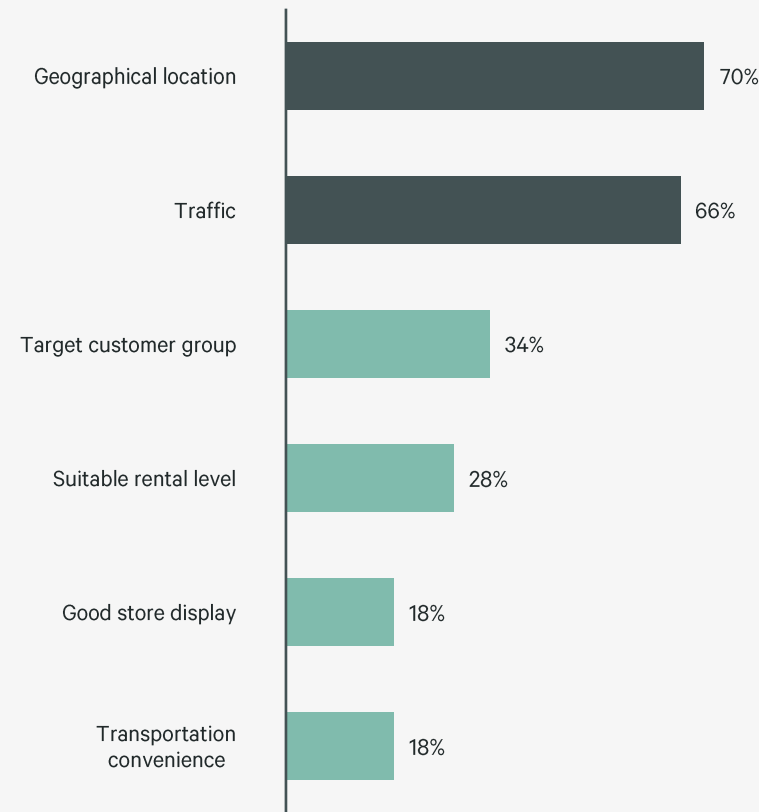
Note 5: For Asian markets other than Hong Kong, Macau, Japan, Korea and Singapore

Source: CBRE Research, May 2024

Location top of mind for site selection, especially for first stores

- Geographical location and traffic are the two most important factors for retailers selecting overseas locations. A superior location can both showcase brand image and ensure targeted sales revenue.
- Some 84% of respondents said they would give priority to shopping malls in core locations, followed by high street stores in the same areas. This strategy is even more pronounced among retailers selecting locations for their first overseas stores. CBRE data support this finding, with 95% of first overseas stores opened by Chinese brands in 2023 being located in local core locations, and more than 70% located in landmark shopping malls.
- A sizable proportion of retailers with a pre-existing presence in a market said they would consider setting up stores in shopping malls in secondary retail clusters, primarily to reduce rental costs.

Figure 9: Which of the following factors will your company prioritise when selecting the location for the first store? (Multiple choices, select up to three)



N = 50

Figure 10: What location and property do you prefer when opening overseas stores? (Multiple choices, select up to three)



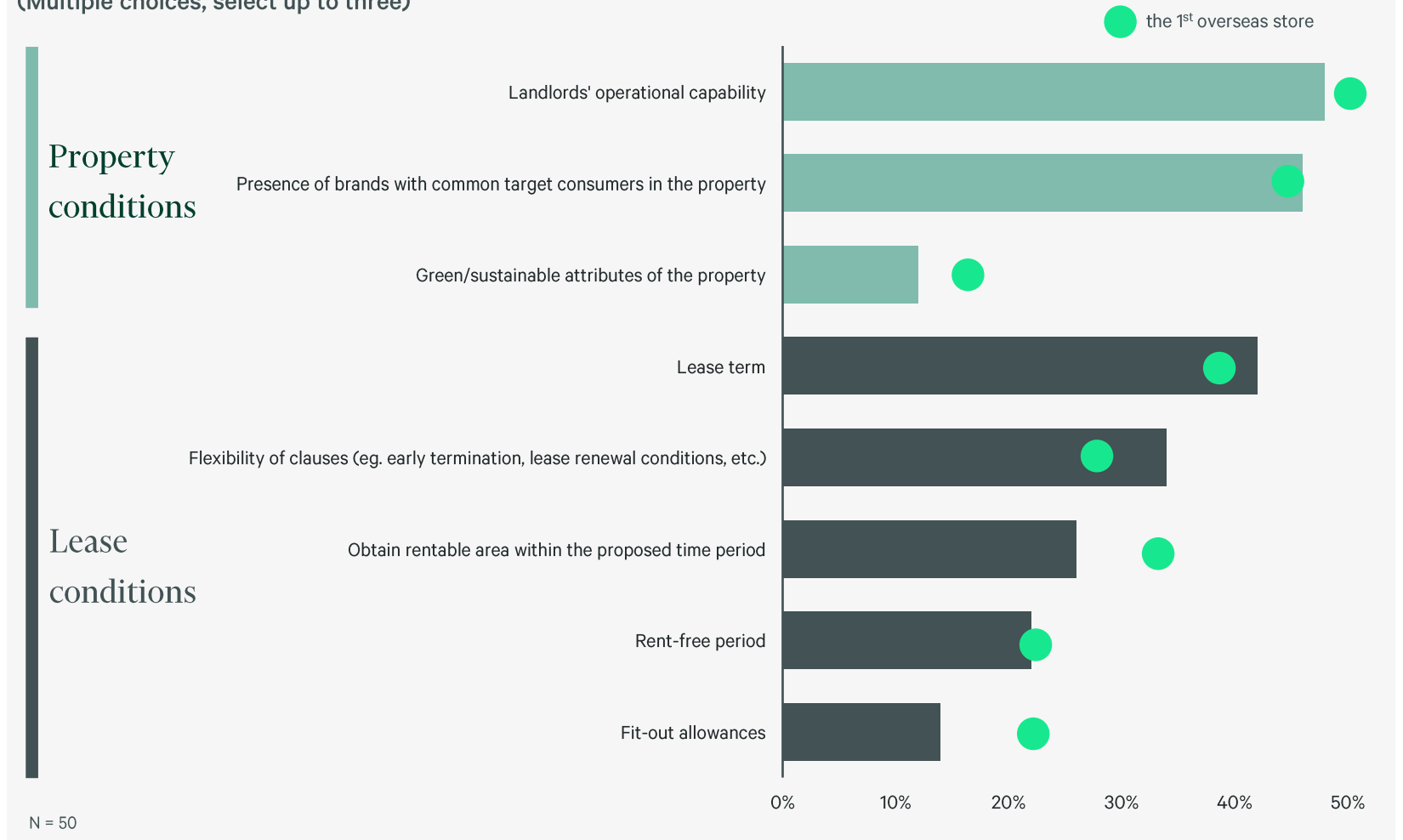
N = 50

Source: CBRE Research, May 2024

Retailers value landlords’ operational capability and tenant synergy; attach importance to lease term and lease flexibility

- In addition to rents, landlords’ operational capability (48%) and the presence of brands with common target consumers in the property (46%) are the factors that most influence retailers’ leasing decisions. This shows that Chinese retailers in overseas markets hope to generate sales and promote their products by creating synergies with well-managed projects and similar brands.
- For leasing conditions, flexibility is crucial. As Chinese retailers’ understanding of overseas retail destinations is relatively weaker than their domestic market, they are looking to include more protection mechanisms in leases to mitigate risk.
- Leasing terms for overseas first stores place a strong emphasis on project construction and fit-out allowances. As retailers want these stores to open during peak tourism and consumption seasons, one-third of respondents said they would like clauses to ensure their stores open on time. The large financial investment required for first stores means retailers pay more attention to fit-out allowances.

Figure 11: What are the conditions that you pay most attention to besides rents when opening overseas stores? (Multiple choices, select up to three)

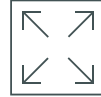


Source: CBRE Research, May 2024

3 Strategies for overseas expansion



Strategies for overseas market expansion



Adhere to moderate growth and focus on quality and efficiency

- Retailers entering overseas markets for the first time are advised to devise a comprehensive strategy encompassing market access and promotion; store location selection; interior and exterior design; and follow-up services.
- Retailers with a pre-existing overseas presence must regularly evaluate the sales performance and supply chain of existing stores as well as those of their competitors, and formulate future expansion plans accordingly. Retailers who plan to expand quickly may consider forming long-term co-operation agreements with local partners.
- Based on their experience in the domestic market, retailers are suggested to conduct due diligence in overseas markets as early as possible before committing to market entry. Retailers may also consider hiring experienced local third-party advisors to devise and facilitate strategies.



Site selection to focus on growth potential and consumer matching

- With major tourism and consumer markets in Asia continuing to recover over the course of 2023, now is an opportune moment for retailers to expand.
- Retailers with existing overseas sales channels are recommended to analyse sales figures when selecting target markets. Those who do not yet have overseas sales exposure can formulate plans by assessing the performance of their peer brands.
- CBRE advises retailers to incorporate social media into the market entry assessment and site selection process.



Adapt strategies to match local conditions and balance store input and output

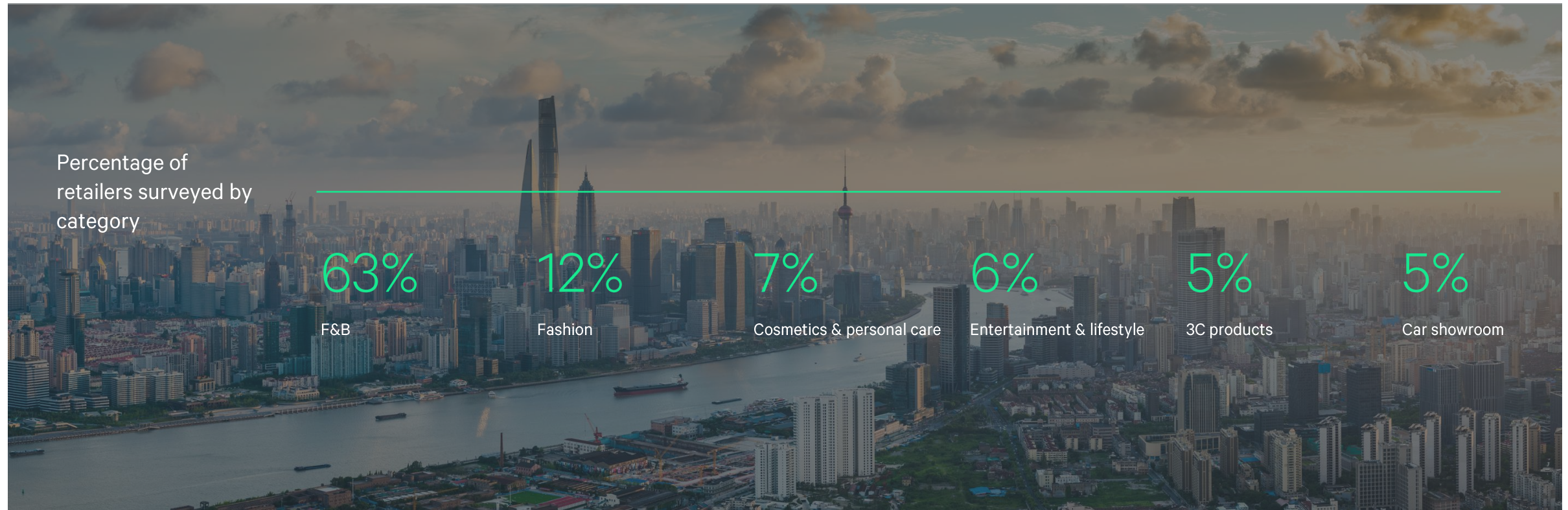
- Retailers must focus on initial investment in stores and ensuring the sustainability of future business.
- With retail rents in markets such as Hong Kong and Seoul still lower than pre-pandemic levels, retailers can consider upgrades by securing better properties and locations.
- In markets such as Tokyo and Singapore where vacancy rates in core locations continue to decline, retailers must accelerate and implement site selection plans.
- CBRE advises retailers to request rental discounts or flexible terms from landlords and consider hiring a professional third-party team with local market knowledge to negotiate terms on their behalf.

4+

Survey Profile



- CBRE 2024 China Retailer Survey was conducted between February 1 and March 5, 2024



Asia Pacific retail rents

	NO.	CITY	RENTAL LEVEL ⁶ /SQ FT P.A.
Mainland China	1	Beijing	US\$ 155
	2	Shanghai	US\$ 160
	3	Guangzhou	US\$ 116
	4	Shenzhen	US\$ 92
Overseas Market	5	Hong Kong SAR	US\$ 428
	6	Singapore	US\$ 238
	7	Tokyo (Ginza)	US\$ 629
	8	Seoul (Myeong-dong)	US\$ 154
	9	Sydney	US\$ 89
	10	Melbourne	US\$ 86
	11	Auckland	US\$ 67

Note 6: Cities in mainland China track ground floor rents of shopping malls; Hong Kong SAR and Tokyo (Ginza) track rents for high street; Singapore tracks rents of shopping malls; Seoul (Myeong-dong) tracks rents based on mid- to large-sized commercial properties; Pacific cities track net effective rents of regional shopping malls.



Source: Korea Real Estate Board, CBRE Research, May 2024

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