

# Outlook on China

## STABLE GDP GROWTH

China's economy grew 6.7% in 2016. China has made good progress in its economic transition, and reforms continue to generate the desired effect of sustainable growth for the entire country. According to the National Development and Reform Commission of the People's Republic of China, the government has set its growth target at approximately 6.5% for 2017.

In 2016, Beijing's GDP grew 6.7% and Chengdu's grew 7.7%. In 2015, Hefei's GDP grew 10.5%<sup>1</sup>, Xining's grew 10.9%<sup>1</sup> and Dalian's grew 4.2%<sup>1</sup>. Excluding Dalian, four cities posted GDP growth at or above 6.5%.

## UNPRECEDENTED PACE OF URBANISATION

The scale and pace of China's urbanisation continues at an unprecedented rate. Urbanisation rate increased from 56.1% in 2015 to 57.3% in 2016. If current trends hold, China's urban population will hit the one billion mark by 2030.

For retailers in China, the scale of China's urbanization promises substantial new markets and investment opportunities.

## STRONG FUNDAMENTALS

According to the National Bureau of Statistics of China, total retail sales of consumer goods rose 10.4% in 2016 while fixed asset investment grew 8.1% over the same period. The structure and quality of growth has improved steadily, with the government continuing to implement proactive fiscal policy and sound monetary policy. The contribution of strong retail sales & service sector to GDP also suggests a higher quality of GDP growth.

China's economy continues to be driven by urbanisation and consumption. As hundreds of millions move into the middle class, their spending behaviour changes. Demand for quality goods and experiential shopping is fast becoming the new trend. This trend is happening in 2nd to 4th tier cities as their GDP per capita continues to increase. Urban residents' disposable income per capita increased 5.6% year-on-year in 2016.

1. As 2016 data is not yet available from the respective government agencies of Hefei, Xining and Dalian, the latest available data is from 2015.

**+6.7%**  
China GDP  
Growth in 2016  
(y-o-y)

Urbanisation rate  
Increased from  
56.1% in 2015 to  
**57.3%**  
in 2016

**+10.4%**  
China Retail Sales  
Growth in 2016  
(y-o-y)

**+5.6%**  
Disposable Income  
per Capita for  
Urban Residents in  
2016 (y-o-y)

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Consequently, the retail scene has benefited, with a new generation of Chinese willing to spend on the latest goods and services at malls.

Across the spectrum of retail malls, both luxury and community malls have benefited from the increasing purchasing power of Chinese citizens. Luxury brands registered modest yearly sales growth driven by rich Chinese, while community malls in the neighborhood have benefited from discretionary spending by residents in the immediate catchment.

(Source: Bain & Company, Dec 2016, Luxury Goods Worldwide Market Study, Fall - Winter 2016)

## E-COMMERCE

At approximately US\$630 billion of sales in 2015, e-commerce in China accounts for 13.5% of all retail spending.

(Source: McKinsey, Apr 2016, How savvy, social shoppers are transforming Chinese e-commerce)

In McKinsey's latest survey of China's internet users, the online-to-offline ("O2O") trend is set to support brick-and-mortar malls as the omni-channel strategy is increasingly adopted by retailers. The slower growth of online retail and greater importance of physical stores is reflected by the increasing number of online retailers investing in their offline networks.

Consumers continue to engage with brands both online and offline, and satisfaction with physical stores remain higher than with online ones. One trend that is helping maintain interest in physical stores is "retailtainment". Two-thirds of Chinese consumers in the survey say that shopping is the best way to spend time with family. Malls – which combine shopping, dining, and entertainment experiences the entire family can enjoy – have benefited most from this trend. BHG Retail REIT's malls combine these elements and are well positioned to benefit as "retailtainment" grows in popularity.

## BHG RETAIL REIT'S PARTICIPATION IN CHINA'S GROWTH

Retail sales continue to register strong growth driven by increase in GDP per capita. Particularly, consumers are allocating more of their income to lifestyle services and experiences. Overall, Chinese consumers are adopting new products, services and retail experiences at rates unseen in developed markets.

BHG Retail REIT is well positioned to benefit from China's transition into the world's largest middle class. The REIT's portfolio of five malls also enables it to capture a share of the spending by the modern consumer. At a time when e-commerce is growing in retail share, BHG Retail REIT's adoption of O2O and "retailtainment" in its malls enable it to maintain a strong position in the retail market.