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E-Commerce in China: Online is the New Black

How Online Shopping is Transforming Retail and Logistics Property Markets

Jones Lang LaSalle 仲量聯行

Real value in a changing world

Executive summary

In this paper, we seek to examine what challenges and opportunities the rise of e-commerce in China will present to the retail and logistics property sectors, as well as contribute our thoughts about how developers and operators can best take advantage of the new market landscape. By 2020, China's e-commerce market could surpass USD 1 trillion, but we believe that much of the pessimism currently being expressed regarding the future of retail real estate is overstated. There are real risks for some segments of the market, particularly at the low-end of the mass market, but nearly everyone in the retail sector can evolve the way they interact with their customers in order to succeed. Meanwhile, the e-commerce market's structural reorientation towards business-to-consumer (B2C) platforms makes the logistics sector the most attractive real estate opportunity in China.

Jones Lang LaSalle sees several major trends in this market:

- The rise of e-commerce will hasten the decline of the mass-market strata-titled shopping mall
- Wholly-owned malls can adapt and succeed by reorienting their tenant mix and mall design around entertainment, services and other experience-related offerings
- A shift towards more business to consumer (B2C) e-commerce means huge distribution centre requirements
- Opportunities exist for mutually beneficial partnerships between logistics property developers and large e-commerce firms

Introduction

"By 2020, the value of goods and services purchased online by Chinese people could surpass USD 1 trillion."

The rapid emergence of e-commerce has captured the attention of the world, and everyone from commercial real estate players to retailers and shopping mall operators to logistics and transportation companies is wondering how it will impact their business. Nowhere has e-commerce developed more quickly or gathered more momentum than in China, where the world's largest internet-connected population is increasingly shopping online. The nation soon will surpass the US as the world's largest online retail market, and by 2020 the value of goods and services purchased online by Chinese people is likely to surpass USD 1 trillion. As China's e-commerce market continues to grow and evolve, two sectors of the real estate industry are seeing contrasting effects. On the retail side, property developers and operators as well as retail brands are fearful that online sales growth may come at the expense of in-store purchases. On the other hand, developers of logistics property have seen demand for warehouses skyrocket from e-commerce firms seeking distribution space. Investors clearly have taken notice and are now aggressively pursuing higher-yielding logistics opportunities.

Background: Only the End of the Beginning

China's e-commerce market is already huge. Estimates of its size vary according to how one defines which transactions "count" as e-commerce, but most experts place China's online sector between Japan and the US in market size. Analysts at Morgan Stanley estimate that China's total e-commerce sales in 2012 were just ahead of Japan's at USD 126 billion (see Figure 1). Online market research firm iResearch put the size of China's market closer to that of the US at USD 206 billion. What is very clear, however, is that China exceeds all other large online markets in terms of growth rate. Whereas the US market has grown steadily at 17% annually since 2003, China emerged from practical non-existence a decade ago and has averaged 90% annual growth over the past five years.

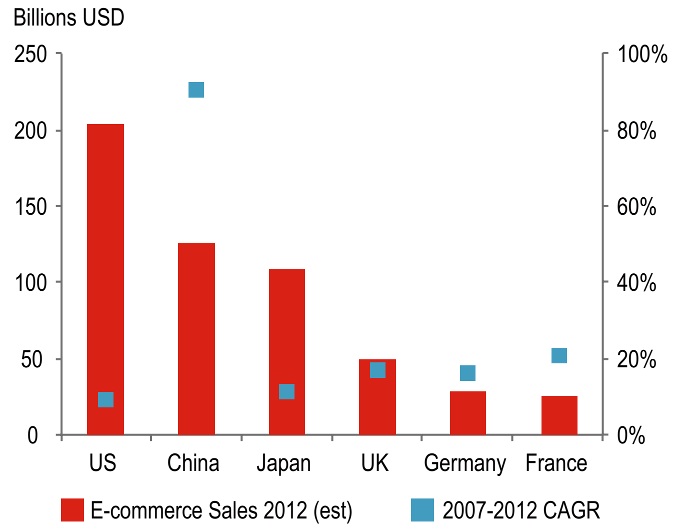
The rapid rise of e-commerce in China is a function of several factors:

- Rapid underlying **economic growth**
- An **expanding middle class** whose fast-rising incomes drive growing overall retail sales
- Fast growth in **Internet penetration**
- **Immature retail sector** with limited store penetration into Tier 3 and 4 cities
- **Accessibility of manufacturing** allowing consumer-to-consumer (C2C) trade of non-branded goods to flourish
- **Rapid innovation and competition** among web platforms and supporting services

Online sales growth has been particularly rapid as ever-larger numbers of shoppers go online with broadband connections and mobile devices. China's Internet population has exploded in recent years to become the world's largest, with 564 million users by end of 2012 (see Figure 2). The Boston Consulting Group (BCG) estimates that in 2011 alone, 61 million Chinese went online for the first time, and 43 million made their first online purchase. Crucial to the expansion of online shopping in particular has been the rise of online payment escrow through services such as Alibaba's Alipay, as well as the rise of better and faster shipping to customers.

China's online retail market still has vast room for expansion. Only about 40% of Chinese people are online, compared to 70-80% in developed countries. Of that online group, only two-fifths have shopped online, compared to 70% of the US online population. BCG estimates that China will add 40-50 million new Internet users per year through 2015, as well as 30-40 million new online shoppers annually. Moreover, eMarketer estimates that in 2012, the average online shopper in China spent USD 501 on online purchases, a fraction of the USD 2,293 spent by the average American web consumer. China's per person online spending will continue to grow as their incomes rise. Looking ahead, we think China's online market will exceed USD 1 trillion by 2020 (See Figure 3), dwarfing all competitors. To put it another way, the value of goods and services purchased online by Chinese people in 2020 would be the 16th largest economy in the world today.

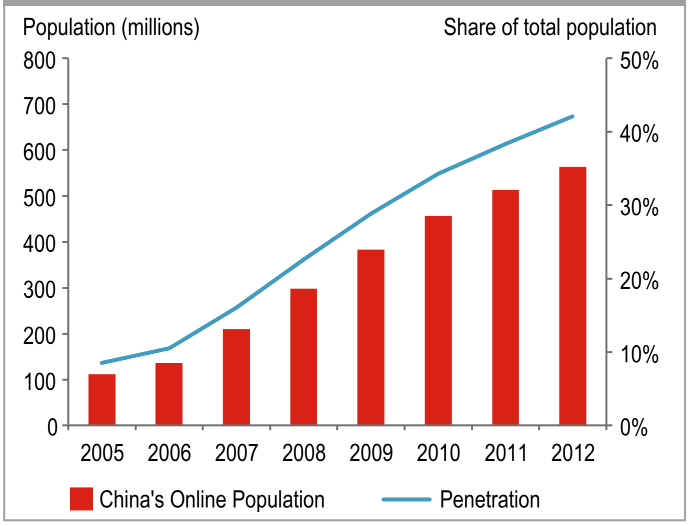
Figure 1: E-commerce sales by country



Source: Morgan Stanley eCommerce model

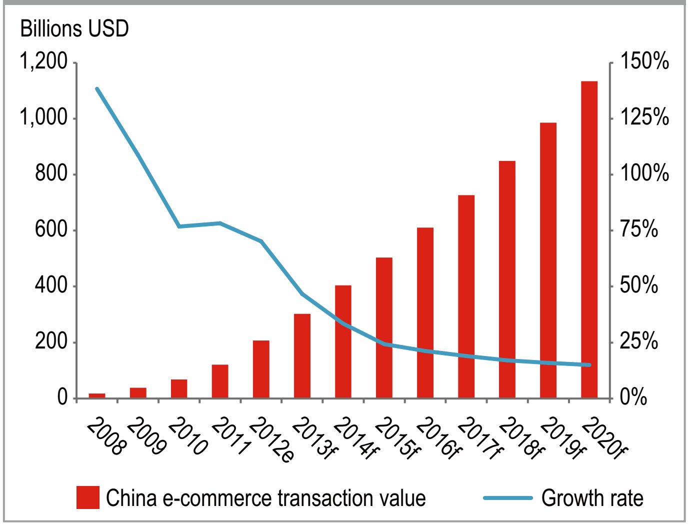
The statistics for individual product categories such as clothing are equally eye-popping. iResearch estimates that in 2012, apparel was China's single largest online sector, with a market size of RMB 318.8 billion (USD 51 billion). Even more significant, Li & Fung has calculated that online apparel sales constitute a 14.3% (and growing) share of China's overall apparel sales. Even if the difficulties in calculating total physical apparel sales may mean this figure is somewhat inflated, it is still impressive for a country where a majority of the population has yet to start shopping online. iResearch estimates that as China grows richer and more connected, its online apparel market could grow to RMB 920.2 billion (USD 150 billion) by 2016.

Figure 2: China's growing online population



Source: China Internet Network Information Center (CNNIC)

Figure 3: China's e-commerce transaction value



Source: iResearch, Jones Lang LaSalle Research

Retail: The Sky is Not Falling for Mall Owners

In developed markets, the rise of e-commerce has proven a destabilising force for many segments of bricks-and-mortar retail. In the US, the dual threats of Walmart and Amazon.com have combined with the rise of digital media to wipe out entire categories of the retail sector compared to 10 to 15 years ago. Retail chains specializing in commodity goods like books, CDs, movies, video games and electronics have either gone out of business or are a shadow of their former selves as consumers buy physical goods online or eschew them entirely for digital alternatives. These trends have plunged into terminal decline once ubiquitous chains like HMV and Tower Records, Blockbuster and Hollywood Video, B. Dalton and Barnes & Noble, and Circuit City. Meanwhile, relentless price pressure and wide product selection has spelled an end for many mom-and-pop stores in towns across America.

"Showrooming" has become the bane of many shop owners: customers become mere visitors, trying out products in the store before buying them more cheaply online from another retailer. The cannibalisation of offline sales by e-commerce has been a particular problem for big box electronics chains for some time, but in recent years it has spread well beyond that category as the proliferation of smartphones has further enabled the practice. The British Council of Shopping Centres estimates that the growing share of online sales in the retail market may render up to 20% of all retail space in the UK surplus to modern retailing requirements. Retailers and owners alike face a period of painful adjustment.

In contrast to developed countries, China still has a relatively immature retail market. Incomes and total retail sales are growing rapidly from year to year, but the country's network of physical retail space is not yet fully built out, with many lower tier cities still without modern shopping centres and relatively few established national retail brands. With such a huge part of the country's future retail market unformed and as-yet unclaimed, some observers argue that e-commerce poses an even starker existential threat to physical retail formats in China than it does in mature international markets. Could these Chinese markets move straight to online shopping and obviate the need for bricks-and-mortar shopping malls to be built in the first place?

> *"China still has a relatively immature retail market, with many lower tier cities still lacking modern shopping centres and having few established national retail brands."*

We believe that these concerns both overstate the threat posed by e-commerce and underestimate the resilience of many types of physical retail. While it is inevitable that e-commerce will carve out a growing niche in China's retail market, the country's culture of *guang jie* – going shopping as a leisure activity – is well entrenched in urban society. For a successful example, one needs look no further than the Chinese cinema industry, which has emerged in recent years as one of China's biggest retail success stories. This success has been achieved in spite of the fact that rampant piracy and online streaming have made theatres' sole product not just readily available online, but free to boot. Movie theatres have fought back to establish themselves as destinations for entertainment, and paying audiences have powered China's 2012 box office to become the world's second largest film market. China's consumers will continue to flock to and spend money in retail properties that provide appropriately targeted shopping experiences.

The demise of the mass-market strata-titled mall

Physical retail will not wither away in the face of easy online shopping, but some formats are more vulnerable than others. One segment of the market at risk to disruption is low-end mass market apparel, which tends to be highly fragmented and unbranded. Today, even though the typical online shopper in China is both better-educated and earns a higher income than average, the market still gravitates to the value end of the shopping spectrum. Their incomes may allow them to update their wardrobe regularly, but they typically buy lots of unbranded apparel and accent it selectively with the occasional branded item or accessory. The unbranded goods they buy most often are sourced directly from factories in Guangdong and other textile centres, and were among the first items to move online thanks to the rise of consumer-to-consumer (C2C) e-commerce on sites such as Taobao.com. Crucially, these goods are basically identical to the items that dominate the small stores that comprise China's no-frills, mass market shopping centres. This brewing competition means that the archetypical strata-titled shopping mall could be the first to see a substantial portion of its tenant base become obsolete.

These strata-titled schemes can be found in the suburbs of Tier I and Tier II cities as well as in central parts of Tier III and Tier IV cities. Smaller versions are found throughout the country as attachments to residential developments, intended to make the residential units more marketable. In recent quarters we have observed examples across China of low-end strata-titled malls suffering from low foot traffic and high vacancy, with managers frequently attributing their struggles to the encroachment of e-commerce on their traditional customer base. With dozens or hundreds of individual owners, these malls are ill-equipped to adjust as their customers migrate to online marketplaces and to more sophisticated, wholly-owned retail assets. If they are to become something other than empty hulking masses, it will likely be a bottom-up, occupier-led phenomenon. However, their eventual use is unlikely to resemble organized retail and could well become something entirely non-retail in nature.

A strata-titled mall in Changzhou, Jiangsu Province

Regional malls: finding the right tenant mix

Asset managers of wholly-owned retail properties, on the other hand, can take a top-down approach and adopt strategies to stay relevant. Taking themes, positioning, marketing and promotion, tenant mix, and technology into account, shopping mall operators can create an environment that gives consumers experiences that cannot be achieved online. However, there is no "magic bullet" strategy that will guarantee success. A combination of elements must be adapted to suit the needs of the community being served. Some potential strategies include:

- **Defensive –** minimizing the presence of brands and categories that are most prevalent online
- **Experiential –** increasing offerings such as:
  - entertainment – cinemas and karaoke
  - lifestyle – gym, salon, and spa facilities
  - dining – new and better food and beverage options, al fresco dining, coffee shops
- **Thematic –** focus on children with play areas and learning centers
- **Promotional –** events in common spaces, pop-up stores
- **Technological –** free wifi, interactive touch-screen information kiosks, the mall's own smartphone app
- **Convenience-based –** ample parking and transit access

Recently we have observed owners dedicating more space for restaurants, entertainment and services – tenants whose products are not easily purchased online and that attract more foot traffic. Managing a successful retail scheme has always been a mix of art and science, however, and getting the right mix of elements that drive foot traffic, bring people back for repeat visits, and generate revenue is not as easy as it sounds. For example, many of the traffic generators like entertainment and dining tenants do not pay as much rent as fashion tenants might, and individual promotions risk bringing people in only once. Among the tenants that pay higher rents, there are not that many retail brands which are exclusive to a single mall in a city. Operators will need to determine the appropriate mix of each of these components that will achieve success in their particular retail environments.

Mall branding can make a difference

A strong brand or theme is an increasingly important tool to help a mall stand out from the crowd. For example, Hong Kong New World's K11 series of malls has adopted an art theme, with exhibition space and an atmosphere of sophistication that imbues them with a distinctive identity. Other successful branded malls such as Joy City are becoming recognised as destinations for young adults. A strong brand communicates to the consumer what particular experience a mall seeks to provide, and consumers can differentiate one mall platform from another – a feature that will be crucial as more and more malls imitate successful experience-building strategies. This is a step away from the parade of undifferentiated department stores that until recently dominated organised retail, and is a trend we expect to appear more often as shopping malls assume greater prominence in Tier II and Tier III markets and seek to build customer loyalty.

Dining and entertainment offerings provide consumers with experiences unavailable online

Going shopping will continue to be an important social experience in China. Opportunities abound for owners to emphasise the community-gathering function of their centres and create safe, quasi-public spaces in which people can linger away from their small high rise flats – the proverbial "town squares" for urban China in the 21st century. There are many ways to achieve this and catering to the interests and hobbies of the rising middle class is one promising approach. Experience-led retail could mean giving a bit of theatre to the products being offered – cooking classes, on-site workshops demonstrating how certain products are made, and auto shows for car aficionados are sure to draw crowds. Live-broadcast television studios on the premises can create buzz and draw crowds of onlookers. Clowns, mini-circuses, and other promotional events are all possibilities. These are some of the many ways that lead to longer dwell time in the shopping centre, and it is well known that total spending is directly proportional to dwell time.

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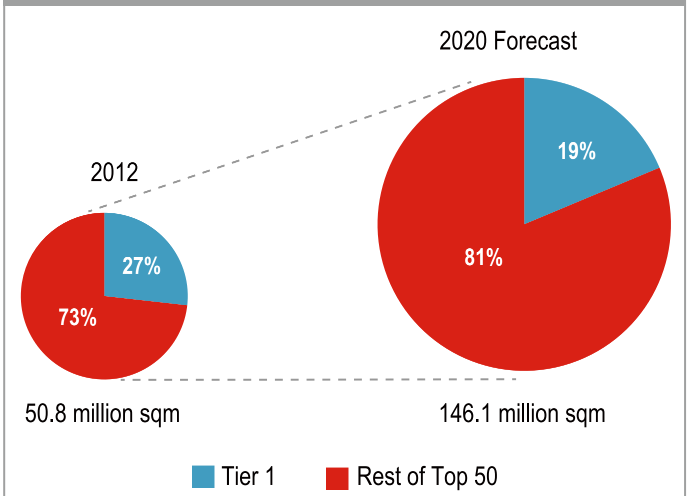
Brand matters: Concept stores and multi-channel

Unlike mall operators, who care deeply about where purchases take place, retail brands are more concerned about making sure their products are in front of their target consumer no matter where that person is shopping. What was called a 'bricks and clicks' strategy during the American dotcom bubble is now multi-channel retailing. Brands going this path seek to reach the consumer everywhere they shop – physical stores, pop-up stores, outlet stores, brand websites, e-commerce aggregator sites (think Amazon or Rakuten), auction sites, or group purchase sites. The goal is to let the consumer shop for a brand's products the way they want to, making it easy for them.

Brands are integrating online strategies with their physical store networks as well, for example with in-store kiosks that access the brand's website, allowing in-store pick up and after-sales service for goods purchased online, and developing opportunities for interacting with the store via mobile devices.

Figure 4: China's shopping mall stock in top 50 cities



Source: Jones Lang LaSalle Research

Increasingly important to the bricks-and-mortar side of multi-channel retailing is the concept store or flagship store, where the brand can showcase its products in their own eco-system directly to the consumer, unedited and unfiltered. In China this is particularly important because many brands are new to the market and a large portion of today's consumers have only recently achieved the necessary purchasing power to consider them. From the Apple Store to Uniqlo's flagship stores to Niketown to Louis Vuitton Maison – concept stores are a means of acquainting customers with a brand and its product lines. Naturally, the brands will want to locate their concept stores and flagship stores where their customers are: in the malls and high streets that most complement their image and have the foot traffic to match.

The easy days for mall development are over

The rise of e-commerce further amplifies the importance of building a good product and managing it correctly. The combined effects of e-commerce and more moderate retail sales growth mean that retail property owners must be even more mindful of rising competition than they were one or two years ago. China could add nearly 12 million sqm of new shopping mall space in 2013 across its 50 largest cities, and annual supply could peak in 2015-16 at over 15 million sqm before tapering off. Smaller cities increasingly will become battlegrounds as the share of retail stock in Tier 1 cities falls from 27% in 2012 to 19% by 2020 (see Figure 4). Quality alone is not a complete defence – upstart local developers are increasingly building properties of international standard. At the sub-city level, overlaps in primary and secondary trade areas will force owners to better understand their unique positioning in the marketplace. For new properties, this begins with smart site selection and design, and continues with professional retail asset management.

Logistics: New Trends and Opportunities for Developers

E-commerce already is having an impact on China's logistics property sector, and in contrast to retail, the results for developers have been indisputably beneficial. Traditionally the Chinese logistics market has been dominated by low-quality warehouses, with a chronic undersupply of modern facilities. The rise of e-commerce firms as a key source of demand has been a boon to developers, who know these occupiers have little vacant space to choose from, and whose growth should guarantee demand for future warehouse assets. At the same time, e-commerce tenants often have specific requirements regarding location and size, which along with a desire to spread risk, leads them to spread leases among multiple developers. With no single developer having locked down one of the major e-commerce players, this new segment of the logistics market remains intensely competitive and dynamic.

Most of the biggest developers count at least one major e-commerce firm among their tenants – Yihaodian is ProLogis' largest tenant with 100,000 sqm, VIPshop cooperates with Goodman in Tianjin, and Amazon has projects with E-Shang and Global Logistics Properties (GLP). GLP, China's largest warehouse developer with about half of the total modern stock, estimates in its annual reports that the e-commerce share of its total leased area in Mainland China rose from 14% in the middle of 2011 to 20% by 4Q12. The number of e-commerce firms in GLP's top ten tenants by leased area also rose from three to four over a similar period (see table). Enquiries for logistics space by e-commerce retailers have remained strong even as demand from bricks-and-mortar retailers slowed in early 2013. Rapidly rising online sales and e-commerce sites' correspondingly increased need for storage space indicate that the symbiotic relationship between developers and e-commerce firms has considerable room for further development.

More e-commerce companies in GLP's top 10 tenants by leased area

2Q11	4Q12
Nice Talent	**Amazon**
VANCL	Deppon
Amazon	Nice Talent
Commercial Global	**VANCL**
DHL	Toll Warehouse
PGL	Schenker
DeWell	**360buy**
GM	DHL
Samsung	Sinotrans
Black & Decker	**VIPshop**

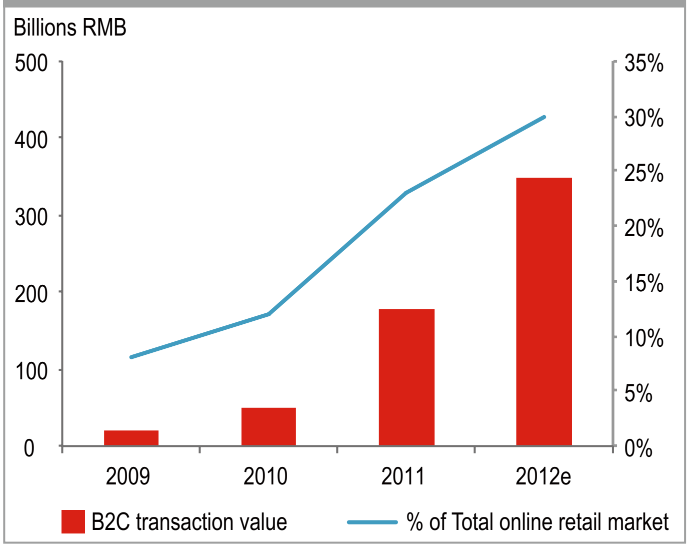
*__Bold__ indicates an e-commerce tenant
Source: GLP Annual Reports

The Rise of B2C

> *"B2C sites' share of China's online retail market grew from under 5% in 2009 to nearly 25% in 2012."*

Developers of logistics property should be aware of ongoing structural changes in the online sector that promise to create more opportunities in years to come. Crucial among these is the rise of B2C sites, which are set to erode the online market share of C2C sites such as Taobao.com. C2C sites have dominated China's online marketplace for much of its existence; for example, iResearch has found that more than 60% of China's online apparel sales in 2012 came from C2C sites. While Taobao and its peers will remain key players in the growing online sector, in the future an expanding share of online transactions will take place on B2C sites. These sites either sell their own inventory or position themselves as third-party platforms that rent virtual storefronts to brands that meet more stringent registration requirements than the typical mom-and-pop Taobao seller. Sellers on B2C platforms such as Tmall (owned by Taobao's parent company Alibaba) tend to be larger brands selling higher-quality products than those found on C2C sites. Morgan Stanley estimates that the B2C sites' share of China's online retail market grew from under 5% in 2009 to nearly 25% in 2012 (see Figure 5) and expects that share to continue growing in the future.

Figure 5: B2C's share of China's online retail market

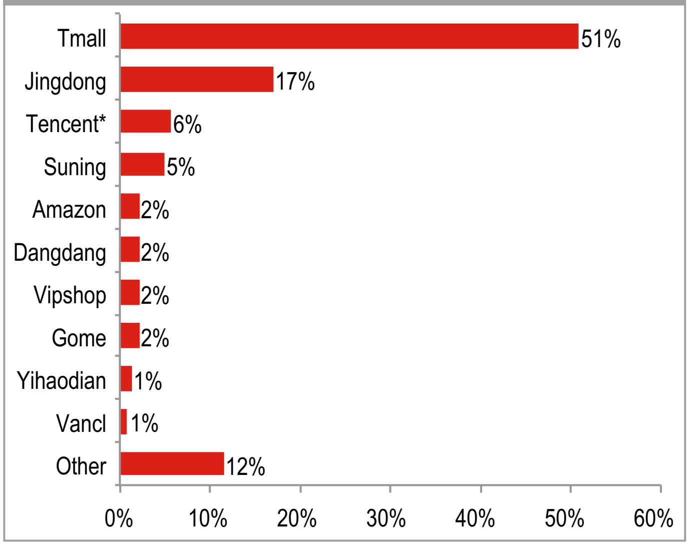


Source: iResearch, Morgan Stanley Research

This relative growth of B2C has wide implications for China's warehouse market. The traditionally dominant C2C model has not been a significant driver of warehouse demand, as the small-scale sellers that characterise the market tend to stock goods at home or through other informal means. The e-commerce contribution to warehouse demand so far has come from the likes of Amazon, Yihaodian and other B2C sites that collectively account for a small share of the online market. This stands to change as the B2C market grows, and especially as more retailers with offline roots choose to go online. Platform sites such as Tmall attract a number of traditional retailers who view the site's virtual storefronts as a cost-effective way to establish an online presence. Such retailers recently have boosted Tmall into the leading position in China's B2C market (see Figure 6). Sales are transacted on the platform site, and the distribution remains largely the retailer's responsibility. In addition to setting up storefronts on the platform sites, more and more retailers have begun to establish their own websites, for which they also take care of fulfilment. Retailers going online will need to upgrade and expand their warehousing facilities – formerly focused on store distribution – in order to accommodate space-intensive picking and packing for online orders.

Some retailers will lease warehouse space themselves, but many others will find it more cost effective to engage the services of logistics providers with expertise in e-commerce distribution. In anticipation of this demand, several third-party logistics firms (3PLs) have begun providing logistics services tailored to e-commerce firms and traditional merchants establishing an online presence. Such 3PLs develop partnerships with both retailers and the main e-commerce platforms, handling relations between the two and delivering services such as warehousing, order fulfilment, packaging and distribution. These firms will drive a wave of demand for logistics space as they establish distribution centres near major population centres for picking and packing. One pioneering 3PL in this field has already leased more than 50,000 sqm of modern warehouse space in Beijing, Shanghai, Hangzhou, Xiamen and Guangzhou.

Figure 6: B2C sites by market share, 2Q13



Source: iResearch

* Tencent includes 51buy, buy.qq.com

Yihaodian packages out for delivery

Scaling Up: Partnering with big e-commerce firms for mutual benefit

Another notable trend in e-commerce distribution is that some of the biggest B2C platform sites are exploring options to build their own logistics networks with self-owned and operated warehouses. For example, earlier this year Alibaba set up a company to invest RMB 100 billion (USD 16 billion) in a national logistics system, complete with a comprehensive warehouse network. Building and managing storage facilities tailored for e-commerce distribution is complicated work, however, and while some e-commerce firms may go it alone, we expect most will seek outside help. Here developers of logistics property will have opportunities to form partnerships with firms to share their expertise. Working with e-commerce firms in turn not only provides developers with major tenants, but also offers developers the hope of overcoming one of the toughest hurdles to logistics development in China: land acquisition.

Local governments in China release industrial land to developers with an eye towards generating taxable local economic activity and jobs. Manufacturing projects suit this need well, since expensive machinery has high registered capital and productive capacity, and many workers are needed to staff the assembly lines. Governments have been more wary of turning over land for logistics use, since warehouses are cheaper to build, employ few people and few companies pay taxes based on where their goods are stored. If a logistics developer can guarantee its property will house an e-commerce tenant, however, local governments may be more amenable. E-commerce tenants offer a number of benefits that make them more attractive compared to other warehouse occupiers (see sidebar). Warehouses anchored by e-commerce tenants are especially attractive in the current slowing macroeconomic context, which has affected the expansion of manufacturing investment. With e-commerce still growing at a healthy rate, local governments are willing to set aside their traditional scepticism towards alotting land for logistics use in the interest of getting a stake of one of the economy's most dynamic sectors. In summary, both e-commerce firms and developers stand to benefit from working together, as the e-commerce firms will gain the expertise of logistics property specialists while developers will have an easier time acquiring land from local governments if they can guarantee the presence of a prominent tenant in the e-commerce space.

Why are governments attracted to warehouse projects with e-commerce tenants?

- E-commerce warehouses require sorting machinery and other equipment that can add 10-15% to construction costs, raising their registered capital
- E-commerce tenants are perceived as relatively high-tech, using software, cloud-computing technology and R&D in their operations that generate more well-paying high-tech job opportunities
- E-commerce tenants attract supporting industries such as delivery services to set up near the warehouse, driving the development of the broader logistics chain in the area
- For certain types of e-commerce tenants, local governments are able to levy a tax of up to 3% of the gross merchandise value (GMV) that is processed through the warehouse

Rise of the interior: Building a bigger network

In addition to the rise of B2C platforms, another trend in e-commerce with logistics implications is the increasingly dispersed distribution of retail spending. China's consumer class has expanded beyond its traditional bases in major coastal cities, with numerous inland, lower-tier cities becoming significant consumer markets. E-commerce has facilitated this proliferation in spending, as more people go online to access products that are not necessarily available in their home markets. Online retailers are looking to expand and improve distribution capacity beyond traditional Tier I hubs, and logistics developers are building capacity in these areas in anticipation of rising warehouse demand, with an eye towards major inland cities that lie at the centre of emerging clusters of consumer markets. A prime example is Wuhan, a transportation hub that offers access to much of the fast-developing central China region, and which has attracted increasing attention from developers in recent years.

Supply chain optimisation is also a requirement for offline retailers

Much recent attention justifiably has focused on the warehousing implications of more and more retailers going online, but the impacts of e-commerce on logistics processes will extend even to retailers that continue to rely on extensive offline store networks. Many of China's big bricks-and-mortar chains have long, complicated supply chains that rely on provincial-level distributors and have too many low-level distribution points. As e-commerce players develop ever more efficient supply chains, however, some of these domestic brands will experience strong competition from online retailers that offer faster delivery and deeper product assortment for the same or lower prices. In order to stay in the game, these domestic brands will need to optimise their supply chains by establishing more centralised control over distribution. A core component of such a strategy might involve building regional distribution centres that can send goods directly to smaller cities rather than first going through provincial distributors. Domestic sportswear firm 361 Degrees has plans to adopt such a strategy by building a series of regional warehouses. These efforts will bring more firms on to the leasing market for modern logistics space.

Overzealous take-up a cause for worry?

Over the past year there have been cases reported of e-commerce firms with excess warehouse space subleasing surplus space or attempting to renegotiate or terminate leases. The problem stems from the heady first few years of China's e-commerce industry, when annual growth rates near or above 100% were the norm and new companies were growing into major players almost overnight. Flush with their initial success, some domestic e-commerce firms leased very large amounts of warehouse space in anticipation of continued explosive growth. As the market has started to mature, however, growth has slowed to merely strong rates, which combined with consolidation within the e-commerce industry has left some firms with more warehouse space than they need. Rather than a worrying trend, we believe this to be only a speed bump in the overall market's expansion, as the growing volume of goods purchased online and the rising requirements for efficient distribution dictate that e-commerce's need for warehouse space will continue increasing in spite of occasional overconfident take-up by some firms. Rapidly growing e-commerce companies planning for future expansion should incorporate the inevitable uncertainty about growth rates into their warehousing strategies, and should build more flexibility into leases during negotiation with developers.

Conclusion

China's rise as a titan among global e-commerce markets promises to transform the way goods there are shopped for, purchased, stored and delivered. Commercial property professionals around the world are increasingly aware that conducting business along traditional lines in the age of online shopping risks missing opportunities and losing competitiveness. This is no less true in the Chinese case, although as ever the specifics are determined by the country's unique development trajectory. For example, while e-commerce will carve out a piece of China's retail market for itself, the market is growing fast enough that opportunities abound for nimble developers that can design attractive shopping experiences. E-commerce is likely to hasten the decline of mass-market, strata-titled shopping malls, while developers of wholly-owned properties may need to reorient their offerings away from standard products and towards experiences and social activities that are less relevant to e-commerce. In the logistics sphere, demand from e-commerce firms has already given a boost to developers, and this segment of business looks to expand further as the growing prominence of B2C sites and the growing number of traditional retailers going online drives even more warehouse demand. Add in the potential for developers to secure large occupiers and acquire land parcels by partnering with big e-commerce firms, and the two industries look set to continue growing a mutually beneficial relationship for the foreseeable future.

By **Michael Klibaner**, **Stuart Ross** and **Eugene Tang,** with special thanks to **Steven McCord** and **Warner Brown** for their contributions to this paper.

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