Locations in Chinese Retail Industry
Segment 3: Regulations & Leasing Clauses
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Learning Objectives:
- Understand the influences of building codes and government on site selections
- Know about the specific clauses in Chinese retail leases

Learning Contents:
- Zoning and building codes- nationally and locally
- Government regulations
- Environmental concerns and sustainability
- Prohibit Use and Exclusive Use
- Leasing negotiation
Different Retail Site Selections

- Purchase land for new constructions and developments
- Purchase a project which is under construction
- Purchase an existing project
Foreign Retailers

- Foreign retailers have received special treatment from local government
  - Reduced taxes
  - Prime retail locations
Land Purchasing and Development

- The Chinese government owns the land and real estate developers need to purchase the right to them within a certain period of time.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Land use period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>40 years</td>
</tr>
<tr>
<td>Industrial</td>
<td>50 years</td>
</tr>
<tr>
<td>Residential</td>
<td>70 years</td>
</tr>
<tr>
<td>Mixed use</td>
<td>50 years</td>
</tr>
<tr>
<td>Other</td>
<td>50 years</td>
</tr>
</tbody>
</table>

- For retail developers, they can choose either commercial or mixed use.
Zoning is used in the U.S. China uses a similar land use classification method.

Developers need to get permission notes for a location in which they want to develop in.

Developers need to pay land-transferring fees to the Chinese government.

Local Finance Bureau is the governmental agency that collects the land-transferring fees.
Land Purchasing and Development

- Building codes have influences commercial development in many different ways. Influences includes the following:
  - Floor area ratio
  - Sun exposure
  - Parking ratios
  - Internal circulation
Under-construction Projects

- Must follow restrictions of the land use classification
- The design of buildings must follow the “building codes”

An under-construction project in Shenzhen, China for commercial land use
Existing stores

- Follow the previous land use classification
- Follow the “building codes” if there is a need to do external decoration, maintenance or improvements.
Site Selection Regulations for Foreign Retailers

- The Chinese government have been very welcoming towards foreign retailers by removing most restrictions for foreign retailers.
- The Foreign Investment Administration Department issued a series of regulations to decentralize its power of granting store opening approvals.
- Commercial zoning
- Foreign retailers must obtain a commercial planning certificate.
Exclusive Use

- Most commercial leases for multi-tenant properties contain clauses that regulate their use of the leased premises.
- Many tenants will require landlords to grant them the exclusive right to operate a certain type of business or sell certain products to avoid competing with other tenants. These provisions are often referred as the exclusive use clauses.
Environmental Regulations

- An environmental impact assessment must be completed before construction or upon request.
Prohibit Use

- A landlord may also include a prohibit use clause to prevent a tenant from using the leased premises in a manner of which the landlord believes is a nuisance to other tenants.
  - For example, a landlord may consider a bowling alley or a night club as a nuisance to other tenants.
Leasing Negotiation

- Tenant mix
  - When a business owner is conducting a site selection, he/she must consider the exiting tenant mix and prospecting co-tenants in a shopping center or a multi-tenants property.
- Good co-tenants: complement
- Bad co-tenants: substitute

For example:
These two Chinese clothing retailers, Giordano and G2000 substitute each other.
Leasing Negotiation

- Anchor tenant and business brands
  - Anchor tenants are the main tenants in a shopping center
  - Usually it is essential to have a lease commitment from an anchor tenant like Wal-Mart, Carrefour or Best Buy before a shopping center will be financed.
  - Anchor tenants usually have more power to negotiate leasing clauses with landlords regarding prohibit use and exclusive use
Property Leases

- Property leases also have an impact on the profitability picture.
- New store leases are often 20% more expensive than existing store leases; however, when an existing store needs to renew their lease it might double.
  - This makes it very difficult to anticipate profits.
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Property Leases

- Department stores who received a long-term lease, like Parkson, have actually turned the rental increase to their advantage by renting concessions in their store at high rates.

- In the past, retailers typically leased properties, minimizing their investment requirements and allowing them to expand rapidly.

- However, with the shortage of good locations and the sharp rise in rental prices, retailers are seeking to buy the properties.
Wal-Mart in China

- Wal-Mart Exclusive Use in China
  - No similar business in the same building or shopping center
  - No similar business within 1.5 kilometers (0.93 mile)
KFC and McDonalds in China

- KFC and McDonalds complement effects
  - No exclusive use for each other
  - Complement effect not substitute
  - Always choose to open stores next to each other or in the same business district