Asian Cities Report – 1H 2019

REPORT
Savills Research

Shenzhen Retail

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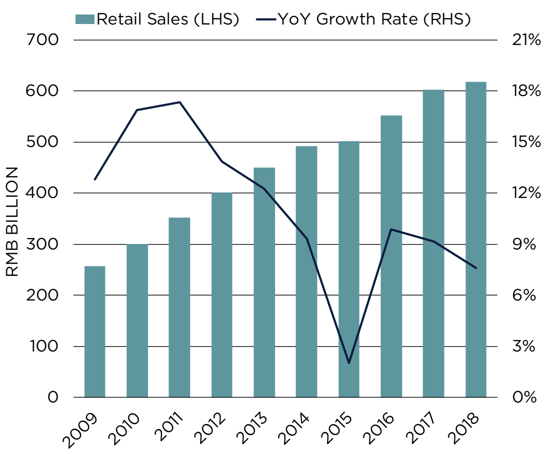
第一太平戴維斯

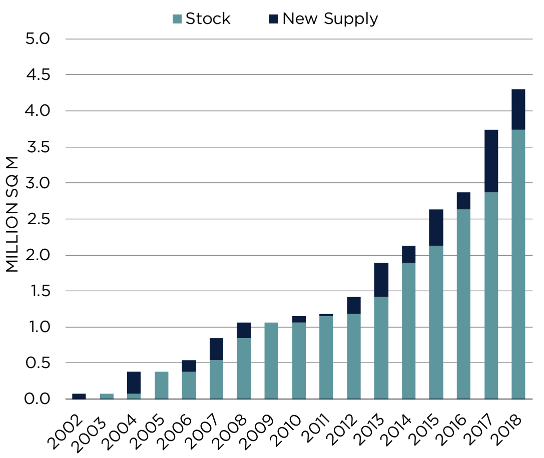
Retail investment market heats up

GRAPH 1: Retail Sales, 2009 to 2018



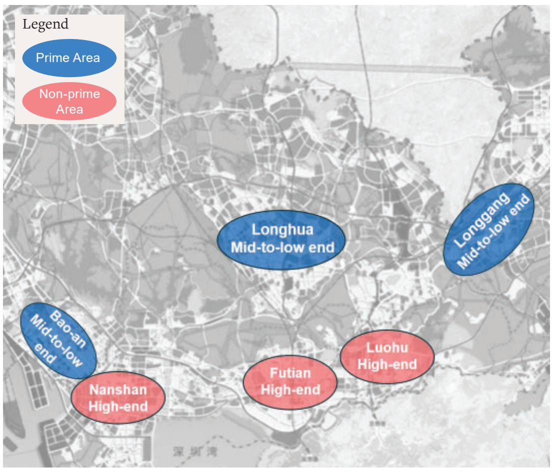
Source Shenzhen Statistics Bureau, Savills Research

GRAPH 2: Stock And New Supply, 2002 to 2018



Source Savills Research

MAP 1: Shenzhen Retail Catchments



Source Savills Research

CITY OVERVIEW

Shenzhen's economy has grown rapidly over the past three years, with GDP CAGR during the period reaching 11.4%. By the end of 2018, local GDP had increased by 7.6% year-on-year (YoY) to approximately RMB2.4 trillion, according to the Shenzhen Statistics Bureau. Meanwhile, the retail market has been active, with the retail sales CAGR reaching 7.1%. By the end of 2018, retail sales had increased by 7.6% YoY to RMB616.9 billion, also according to the Shenzhen Statistics Bureau. To a growing number of people, Shenzhen remains a dynamic and attractive city for both working and living, and its permanent population stood at 12.5 million at the end of 2017. Shenzhen's strong economic and demographic fundamentals have supported the growth and development of its retail property market.

MARKET OVERVIEW

As a result of rapid urbanisation, six major retail property submarkets have developed in Shenzhen at the end of 2018. Prime areas include Luohu, Futian and Nanshan, which are primarily distributed alongside Shennan Avenue. Non-prime areas, including some retail nodes, have emerged in Bao'an, Longgang and Longhua districts. The total stock of the Shenzhen retail property market (mid- to high-end shopping centres) was approximately 4.3 million sq m at the end of 2018.

DEMAND

Demand in the retail market is strong, with the average city-wide vacancy rate falling for three consecutive years from 5.1% to 2.2%. By the end of 2018, the city-wide vacancy rate had fallen by one percentage point (ppt) YoY to 2.2%. In recent years, robust leasing demand has mainly stemmed from New Retail supermarkets, mid-to high-end F&B, children-related facilities, fitness centres, and sectors such as personal care, sports and outdoors, and home and lifestyle.

Some notable leasing transactions in 2018 included Hema Xiansheng leasing approximately 4,000 sq m in Futian CBD WongTee Plaza; PAFC Mall attracting high-end F&B with the entry of Inayaka (田舍家) and Xinrongji (新荣记); both Nike and Adidas taking up approximately 500 sq m in Coastal City, Decathlon, MUJI and Purcotton leasing approximately 4,300 sq m, 3,750 sq m and 1,300 sq m, respectively, in UpperHills; Enjoy Variety Lego Education (百变创想乐高教育) opening a school of approximately 700 sq m in Haiya Mage Mall; Fusion Fitness leasing approximately 1,500 sq m in MixC World; and Tony Studio (东田造型) taking up approximately 250 sq m in WongTee Plaza.

ASSET PERFORMANCE

Owing to the rapid construction pace and speedy development of the Shenzhen retail property market, a large volume of new supply was completed in the past three years, resulting in growing competition for leases. In exchange for a higher occupancy rate, most landlords offered lower rent rates prior to opening their shopping centres. As a result, the city-wide average ground-floor rent decreased by 2.5% from 2016 to 2018. By the end of 2018, the city-wide average ground-floor rent had decreased to RMB800 per sq m per month. Like many other markets across the country, rental levels between prime and non-prime areas were significantly different, with the former in Shenzhen reaching RMB1,097 per sq m per month and the latter RMB566 per sq m per month.

As a result of its sophisticated retail ambiance and catchment development, the Luohu retail property submarket achieved the highest average rent among all submarkets in Shenzhen, reaching RMB1,803 per sq m per month by the end of 2018. Rents in both Futian and Nanshan experienced a downward trend in 2017 but rebounded in 2018 as a consequence of trade-mix upgrades in many shopping centres and the outstanding performance of several shopping centres. By contrast, rents in Longgang and Longhua were relatively stable as they were still emerging districts.

INVESTMENT MARKET

The Shenzhen retail property investment market has grown more and more active, with inquiry levels and en-bloc sales transaction volume showing a notable uptick over the past two years. This expansion is supported by the establishment and development of the Greater Bay Area where Shenzhen stands out as one of the most important gateway cities within the region. In addition, overseas institutional investors have also set foot in the market through either equity or asset investment approaches. The volume of deal sourcing and even negotiation activities increased notably during 2018. Recently, the most significant en-bloc sales transaction was the acquisition of Central Walk by Link REIT. According to its 20 February 2019 announcement, Link REIT purchased the shopping centre from Central Walk Company Ltd. for a total consideration of approximately RMB6.6 billion.

OUTLOOK

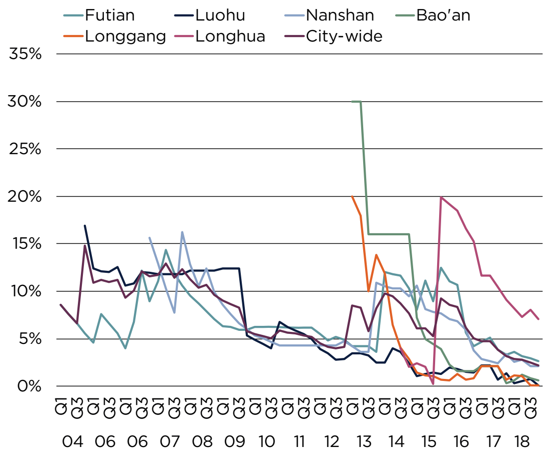
Despite the prediction that economic growth is set to decelerate, the overall economic and demographic fundamentals for the Shenzhen retail property market remain relatively strong, which should support the development of a positive 2019. By estimation, four shopping centres with a total retail GFA of approximately 380,000 sq m are scheduled to debut in 2019. To counter the growing market competition, landlords are advised to spend greater resources on trade- and brand-mix strategies and adjustments.

The overall performance of the Shenzhen retail property market is expected to be positive in the near year, although a handful of new shopping centres scheduled to open in 2019 may bring about some impact on leasing competition in the market. Taking the current pre-leasing rates of the new projects into consideration, it is expected that the city-wide retail market vacancy rate will decrease. In the short- to medium-term (1-2 years), average city-wide ground-floor rent is expected to rise. The rental level polarisation between prime and non-prime areas will remain although the gap in pricing is expected to shrink as a result of the rapid growth of the non-prime retail property market.

The investment sector of the Shenzhen retail property market should stay active in the short- to medium-term due to several factors: the collective impact of the Greater Bay Area expansion; the continued momentum within local economic and demographic contexts as well as within the retail property market; the current, positive investor sentiment; and the resilient trends in asset performance that the market is seeing over the long run . The asset performances of established shopping centres will be further enhanced by the scarcity of supply in prime areas and the increasing population of the middle-class. In addition, supported by an ongoing multi-centre development campaign in the Shenzhen retail property market, projects in emerging areas are also expected to attract a growing number of domestic real estate enterprises that have strong operational capability and financial capacity.

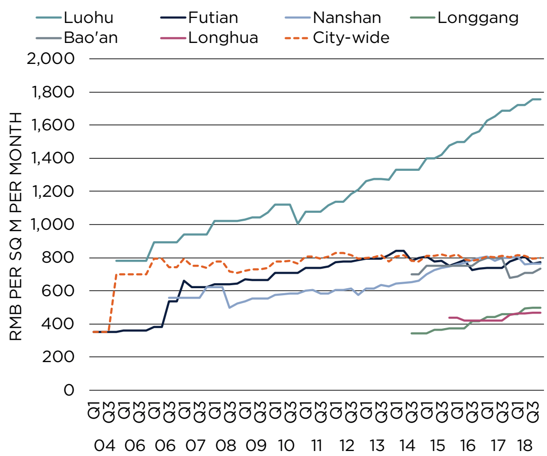
> “Brands opening up their first stores in shopping malls helped increased footfall in retail projects across the city.”

GRAPH 3: Submarket Vacancy Rate, 2004 to 2018



Source Savills Research

GRAPH 4: Submarket Rental Performance, 2004 to 2018



Source Savills Research

TABLE 1: Future Supply, 2019

PROJECT	SUBMARKET	GFA (SQ M)	DEVELOPER
One Avenue Phase 1	Futian	186,000	Excellence & Gemdale & Dabaihui
Uniworld Zone B	Longhua	90,000	Horoy
TOWN City	Nanshan	60,000	Shenzhen Metro & Shum Yip
East Link	Luohu	44,000	Shum Yip

Source Savills Research

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