

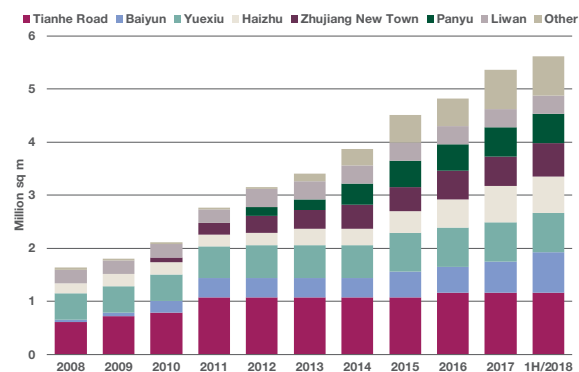
# Asian Cities Report

## **Guangzhou Retail**

2H 2018

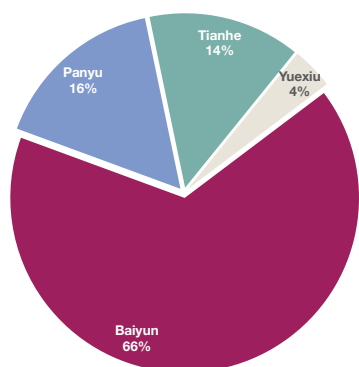


**GRAPH 1**  
**Stock and its breakdown by catchment, 2008 – 1H/2018**



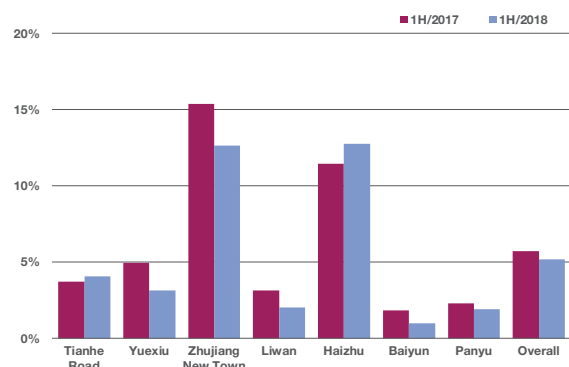
Source: Savills Research  
NB: does not include Panyu New Town

**GRAPH 2**  
**Future supply breakdown by GFA, 2H/2018**



Source: Savills Research

**GRAPH 3**  
**Overall vacancy rate and breakdown by submarket, 1H/2017 vs 1H/2018**



Source: Savills Research

## Macroeconomics

According to the Guangzhou Statistics Bureau, Guangzhou's GDP expanded to RMB1,065.3 billion at the end of 1H/2018, increasing 6.2% year-on-year (YoY). Tertiary industry grew by 6.1% YoY to RMB752.0 billion at the same time, accounting for 70.6% of total GDP. Market inflation was stable in Guangzhou, with the local CPI increasing by 0.1 of a percentage point (ppt) YoY to 102.3 in Q2/2018.

The Guangzhou retail market continued to grow, with total retail sales increasing by 8% YoY to RMB373 billion in the first five months of 2018. By sector, wholesale and retail sales increased by 8.4% YoY while accommodation and F&B increased by 4.9% YoY over the same period.

## Supply

There was no new supply launched in 1H/2018 and the total stock of prime retail properties remained at 5.6 million sq m. Stock in prime retail areas totalled 1.9 million sq m and 3.7 million sq m non-prime retail areas by the end of 1H/2018.

The overall retail property market landscape in Guangzhou has developed rapidly over the past decade. Unlike other first-tier cities in China, decentralisation has yet to take place within the city. The number of major catchments increased from four (Yuexiu, Liwan, Tianhe Road and Haizhu) in 2008 to seven (Tianhe Road, Baiyun, Yuexiu, Haizhu, Zhujiang New Town, Liwan and Panyu) at the end of 1H/2018.

Meanwhile, the total stock of prime retail property expanded to 5.6 million sq m in 1H/2018, up 243.7% from 2008. Tianhe Road was the largest retail catchment in 1H/2018, followed by Baiyun and Yuexiu.

Six prime shopping centres with a total GFA of approximately 500,000 sq m are expected to open in 2H/2018, pushing the stock of prime retail property up to 6.1 million sq m by the end of 2018. The majority of this new supply is located in non-prime areas, with 66% concentrated in Baiyun.

## Vacancy rates & rents

The city-wide vacancy rate fell by 0.5 of a ppt YoY to 5.2% in 1H/2018. The vacancy rate in prime retail areas remained unchanged YoY at 3.9% while that of non-prime areas fell by 1 ppt YoY to 5.8% at the end of 1H/2018. The vacancy rate for the Baiyun submarket was the lowest, resting at 1% in 1H/2018. By contrast, the vacancy rates for the Haizhu and Zhujiang New Town submarkets appeared to be highest during the same period, hovering at 12.8% and 12.6%, respectively.

City-wide average first-floor rents increased by 3.7% YoY in 1H/2018 to RMB711.7 per sq m per month. Average first-floor rent in prime areas increased 5% YoY to RMB1,151 per sq m per month, whilst that of non-prime areas reached RMB377 per sq m per month, up 2.2% YoY.

It is worth mentioning that as rents for F&B retailers in other first-tier cities have already risen higher than for the fashion sector, there is significant room for further rental growth in Guangzhou's F&B sector.

## Tianhe Road

Tianhe Road is a prime submarket in Guangzhou, with representative projects including but not limited to Tee Mall (天河城广场), Grandview Mall (正佳广场), Taikoo Hui (太古汇) and Parc Central (天环广场). Vacancy rates on Tianhe Road remained stable, edging up 0.3 of a ppt YoY to 4.1% in 1H/2018. Meanwhile, the average rent in the district was the highest across the city, increasing 6.7% YoY to RMB1,232.3 per sq m per month.

## Yuexiu

Yuexiu is one of the oldest and most established retail areas in Guangzhou. Some representative projects include China Plaza (中华广场), Leperla (丽柏广场) and A-mall (捷登都会). Vacancy rates in Yuexiu are relatively low, averaging 3.9% at the end of 1H/2018. Meanwhile, rental growth in Yuexiu has been relatively stable, with average rent increasing 2% YoY to RMB933.3 per sq m per month.

### Zhujiang New Town

Zhujiang New Town is the CBD of Guangzhou, and is an area filled with high-end consumers such as white-collar workers and corporate executives. The shopping malls located here are relatively higher end as well. Representative projects in Zhujiang New Town include K11, IGC (天汇广场) and GT Land Mall (高德置地广场). The vacancy rate in Zhujiang New Town decreased by 2.7 ppts YoY to 12.6% at the end of 1H/2018. Meanwhile, the average rent in Zhujiang New Town increased 2.7% YoY to RMB500.6 per sq m per month.

### Retailers

The F&B sector overall continued to expand rapidly, contributing the most in terms of new leases in 1H/2018. New openings accounted for more than 27% of total retail launches, followed by fashion, accessories and kids' sectors.

There are two major reasons for the fast expansion of the F&B sector. First, more and more new retail supply is concentrated in non-prime areas, where F&B is one of the most preferred sectors by consumers as well as retail property owners. Secondly, rents for F&B retailers are still relatively low compared to other tier-one cities, where the average rents for F&B have already risen higher than rates for the fashion sector.

### Market outlook

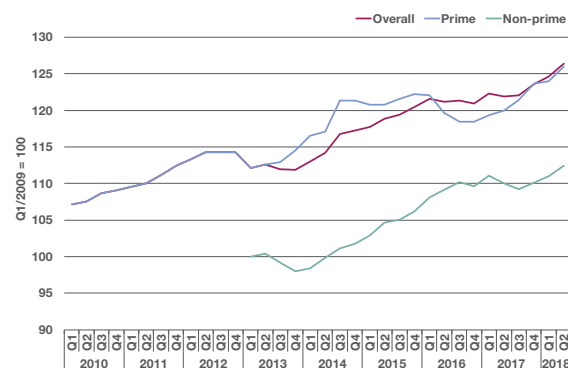
Approximately 500,000 sq m of new supply will enter the market in 2H/2018, mainly located in non-prime areas such as Baiyun and Panyu districts. The new Aeon Mall (永旺梦乐城) in Jinshazhou, with a GFA of 200,000 sq m, will be the largest retail project coming to the market this year.

City-wide vacancy rates are expected to rise again on the back of new supply launching in 2H/2018. As Baiyun district will need to absorb the largest amount of new supply, vacancy rates in the area are expected to increase at a faster rate compared to those of other non-

prime areas. Consequently, rental growth in Baiyun is expected to be modest.

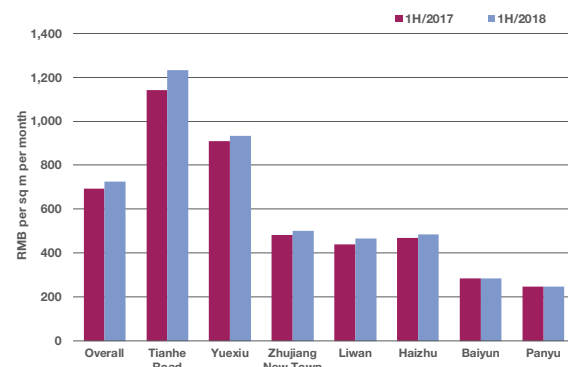
Improving market performance, positive retailer sentiment and increasingly selective consumer requirements will all encourage asset owners to innovate to capitalise on future growth. Additionally, the relatively strong economic fundamentals and the continued expansion in a number of retail sectors, such as F&B, education, entertainment, fashion and kids will support stable development of the market, attracting both domestic and overseas investors. ■

GRAPH 4 Prime retail mall first-floor rental indices, 2010 – Q2/2018



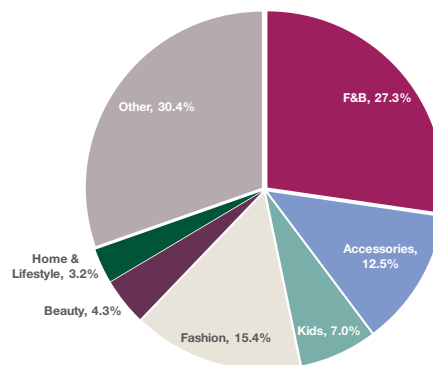
Source: Savills Research

GRAPH 5 Overall average rent and rental breakdown by catchment, 1H/2017 vs 1H/2018



Source: Savills Research

GRAPH 6 Newly-leased tenant mix breakdown, 1H/2018



Source: Savills Research

## ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2842 4400 Fax: (852) 2868 4386



### ASIA PACIFIC EXECUTIVE COMMITTEE

CEO, Greater China  
Contact: Raymond Lee E-mail: rlee@savills.com.hk

Executive Chairman, Asia Pacific  
Contact: Robert McKellar E-mail: rmckellar@savills.asia

CEO, South East Asia  
Contact: Christopher Marriott E-mail: cjmarriott@savills.asia

CEO, Asia Pacific (Ex Greater China)  
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

COO & CFO, Asia Pacific  
Contact: Tim Robinson E-mail: tbrobinson@savills.asia

CEO, Australia & New Zealand  
Contact: Paul Craig E-mail: poraig@savills.com.au

### HONG KONG SAR

#### Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2842 4534 Fax: (852) 3007 2458  
Contact: Raymond Lee E-mail: rlee@savills.com.hk  
EA Co. Licence: C-002450

#### Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2840 4806 Fax: (852) 3007 4523  
Contact: Charles Chan E-mail: ccchan@savills.com.hk  
EA Co. Licence: C-023750

#### Savills Property Management Holdings Limited

805-13 Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong  
Tel: (852) 2534 1688 Fax: (852) 2508 1883  
Contact: Johnnie Chan E-mail: jokchan@savills.com.hk  
EA Co. Licence: C-002993

#### Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong  
Tel: (852) 2512 1838 Fax: (852) 2887 3698  
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk  
EA Co. Licence: C-004089

### MACAU SAR

#### Savills - Macau

Savills (Macau) Limited  
Suite 1309-10, 13/F Macau Landmark,  
555 Avenida da Amizade, Macau  
Tel: (853) 8506 6288 Fax: (853) 2878 1805  
Contact: Franco Liu E-mail: fliu@savills.com.mo

### CHINA

#### Savills - Shanghai

25/F Two ICC, 288 South Shaanxi Road,  
Shanghai 200031, China  
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699  
Contact: Siu Wing Chu  
E-mail: siuwing.chu@savills.com.cn

#### Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai  
Avenue, Chaoyang District, Beijing 100022, China  
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299  
Contact: Anthony McQuade  
E-mail: anthony.mcquade@savills.com.cn  
Offices in Chengdu, Chongqing, Dalian, Guangzhou,  
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### ASIA

#### Savills - Indonesia

PT Savills Consultants Indonesia  
Panin Tower – Senayan City, 16th Floor, Unit C  
Jl. Asia Afrika Lot. 19, Jakarta 10270, Indonesia  
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81  
Contact: Craig Williams Email: craig.williams@savills.co.id

#### Savills - Japan

Savills Japan Co., Ltd  
15/F Yurakucho ITOCiA, 2-7-1 Yurakucho, Chiyoda-ku  
Tokyo 100-0006, Japan  
Tel: (81) 03 6777 5150 Fax: (81) 3 6777 5105  
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

#### Savills - Korea

Savills Korea  
13/F Seoul Finance Center, 136 Sejong-daero  
Jung-gu, Seoul 04520, Korea  
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188  
Contact: Crystal Lee E-mail: csjlee@savills.co.kr

#### Savills - Malaysia

Savills (Malaysia) Sdn Bhd  
Level 9, Menara Milenium, Jalan Damanlela, Bukit  
Damansara  
50490 Kuala Lumpur, Malaysia  
Tel: (603) 2092 5955  
Contact: Christopher Boyd  
Email: chris.boyd@savills.com.my

#### Savills - Singapore

Savills (Singapore) Pte Ltd.  
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712  
Tel: (65) 6836 6888 Fax: (65) 6836 2668  
Contact: Marcus Loo E-mail: marcus.loo@savills.com.sg

#### Savills - Taiwan

Savills (Taiwan) Limited  
21/F Cathay Landmark, No.68, Sec. 5, Zhongxiao E. Road  
Xinyi District, Taipei City 110, Taiwan  
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929  
Contact: Frank Marriott E-mail: fmarriott@savills.asia  
Office in Taichung

#### Savills - Thailand

Savills (Thailand) Limited  
26/F Abdulrahim Place, 990 Rama IV Road  
Silom, Bangkok, Bangkok 10500, Thailand  
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339  
Contact: Robert Collins E-mail: rocollins@savills.co.th

#### Savills - Vietnam

Savills Vietnam Ltd. Co.  
18/F, Ruby Tower, 81-85 Ham Nghi Street  
District 1, Ho Chi Minh City, Vietnam  
Tel: (84) 28 3823 9205 Fax: (84) 28 3823 4571  
Contact: Neil MacGregor  
E-mail: nmacgregor@savills.com.vn  
Offices in Danang, Hanoi and Ho Chi Minh City

### INDIA

#### Savills - India

Savills India  
Level 8, Vibgyor Towers, Bandra Kurla Complex  
Mumbai 400 051 India  
Tel: (91) 22 4090 7300  
Contact: Bhavin Thakker Email : bthakker@savills.in  
Offices in Bangalore and Gurgaon

### AUSTRALIA

#### Savills - Sydney

Savills (Aust) Pty Ltd.  
Level 25, 1 Farrer Place, Sydney, Australia NSW 2000  
Tel: (61) 2 8215 8830 Fax: (61) 2 8215 8899  
Contact: Simon Fenn E-mail: sfenn@savills.com.au

#### Savills - Melbourne

Level 48, 80 Collins Street, Melbourne VIC 3000  
Tel: (61) 3 8686 8000 Fax: (61) 3 8686 8088  
Contact: Stuart Fox E-mail: sfox@savills.com.au  
Offices in Adelaide, Brisbane, Canberra, Gold Coast, Notting  
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### NEW ZEALAND

#### Savills - New Zealand

Level 6, 41 Shortland Street, Auckland NZ 1010  
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Contact: Thomas McAlister E-mail: tmcalister@savills.co.nz  
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### THE AMERICAS

#### Savills - New York

Savills Studley, 399 Park Avenue, 11th Floor,  
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Updated: 18 September 18

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