

# Briefing Retail sector

May 2014



Image: Tee Mall, Tianhe district

## SUMMARY

Retail rents continued to face downward pressure due to national and global economic uncertainties, leading to a slight dip in Q1/2014.

- Retail sales in the first two months of 2014 totalled RMB120.1 billion, up 10.1% year-on-year (YoY).
- No new projects were launched onto the market this quarter, with stock remaining at around 3.6 million sq m.
- Prime first-floor shopping mall rents fell 0.1% quarter-on-quarter (QoQ) to an average of RMB660 per sq m per month.
- With retailers remaining cautious amid sustained supply, vacancy rates are expected to rise, especially in emerging areas, while rents are likely to be affected by the fierce competition between landlords due to the limited pool of retailers.

“Competition for footfall is increasing between projects and rental growth is expected to slow this year while projects put in more effort into maintaining occupancy rates.” Lucy Lui, Savills Research

### ➔ Market overview

For the first two months of 2014, retail sales totalled RMB120.1 billion, leaving year-to-date (YTD) YoY real growth at 10.1%.

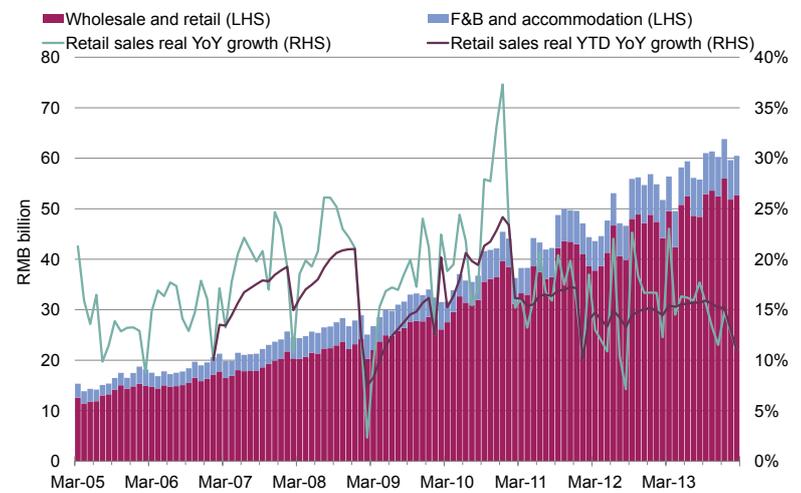
Wholesale and retail sales reached RMB104.5 billion during the first two months of 2014, up 10.5% YoY, while F&B and accommodation sales totalled RMB15.56 billion, up 7% YoY.

### Supply

No new supply was launched onto the market in Q1/2014. As a result, retail market stock remained unchanged at 3.6 million sq m.

Four new projects, however, are expected to enter the market in the next three quarters, with the majority scheduled to open during the fourth quarter, including Panyu Wanda

GRAPH 1 **Retail sales, Mar 2005–Feb 2014**



Source: Guangzhou Statistics Bureau, Savills Research

Square, which has announced an opening date of November 8, and G.T Land Seasons Mall – Winter, also claiming to open in Q4/2014. Total new supply in 2014 is estimated to reach 546,000 sq m, the highest level in the last three years.

### Rents

The slowing growth in the domestic economy and retail market both continue to place increased downward pressure on retail rents. In Q1/2014, rents recorded a marginal decline to an average of RMB660 per sq m per month, falling 0.1% QoQ and 1.2% YoY.

In order to attract the proper tenant mix, landlords are offering competitive rents to gain satisfactory occupancy rates and generate footfall, placing downward pressure on city-wide rents, which is expected to last for the next few months.

Prime retail rents vary greatly from district to district. Rents in prime retail areas remained stable and relatively high at above RMB1,000 per sq m per month, while emerging areas such as Zhujiang New Town, Baiyun and Panyu, are now less than half that of prime retail rents.

Yuexiu saw a decrease in rents this quarter as several projects

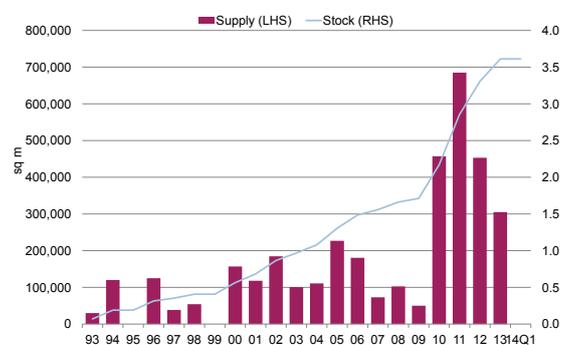
in the area are outdated and are currently adjusting tenant mixes. This has pushed landlords to provide negotiating room on rents for retailers. Emerging areas, and especially new projects, are working hard to generate footfall and are competing fiercely for the limited pool of retailers.

### Retailer information

In the first quarter of 2014, fashion brands continued to be cautious in terms of expansions and opening new stores, while F&B and leisure brands took active roles in market expansion. For example:

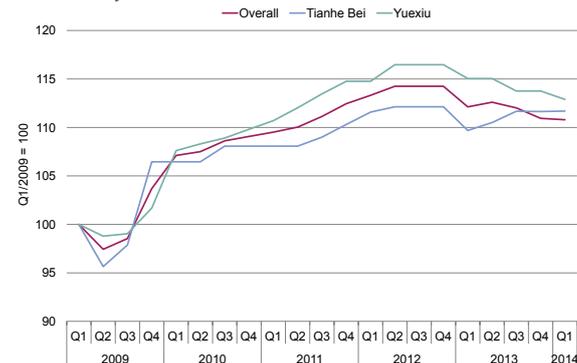
- Uniqlo opened a 10,000-sq m flagship store in Victoria Plaza, Tianhe Bei, on 28 March.
- H&M opened a 1,000-sq m store on 20 January, in Metropolitan Plaza, Liwan district.
- Green Tea, a trendy Chinese restaurant, opened its first store in Guangzhou in January, a 1,200-sq m store in Rocks Mall located in Haizhu district.
- Tommy Hilfiger, an American fashion brand, launched a new 200-sq m store in Taikoo Hui on Tianhe Road. ■

GRAPH 2 **Shopping mall supply and stock, 1993–Q1/2014**



Source: Savills Research

GRAPH 3 **Shopping mall first-floor rental indices, Q1/2009–Q1/2014**



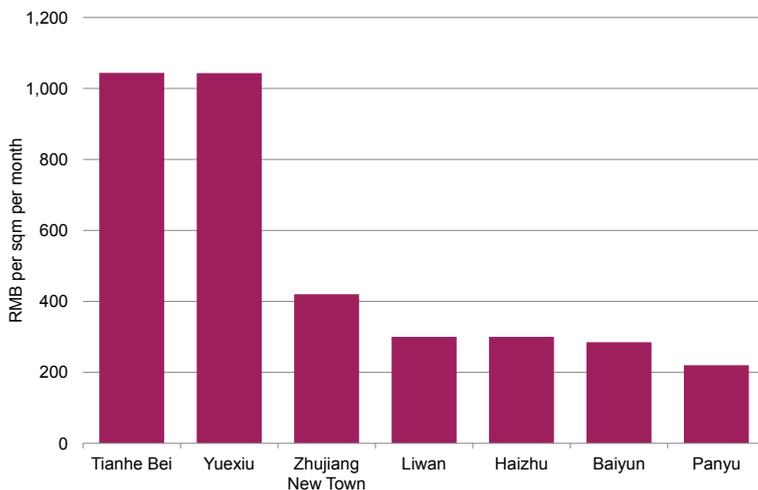
Source: Savills Research

TABLE 1  
Key future projects, Q2–Q4/2014

Project	District	Size (sq m)
Aeon Mall	Panyu district	170,000
Wanda Panyu Plaza	Panyu district	190,000
G.T. Land Seasons Mall – Winter	Zhujiang New Town	100,000
Capital Mall Sky+	Baiyun New Town	86,000

Source: Savills Research

GRAPH 4  
Shopping mall first-floor rents by district, Q1/2014



Source: Savills Research

## OUTLOOK

Due to retailers continuing to view prime locations as the first choice to enter the market, rents are expected to remain stable, while emerging areas are facing challenges in attracting effective footfall and proper tenant mixes.

- Four retail projects are expected to be handed over in the next three quarters of 2014, adding a combined GFA of 546,000 sq m to the market.

- All four new projects scheduled to be launched in the next nine months are in emerging areas, with around 85% of 2015 and 2016 supply also located in emerging areas, such as Panyu district and Zhujiang New Town.

- It will take time for the market to absorb the new supply, especially given the concentration of projects in emerging locations. As supply pressure mounts, rental growth will likely be kept in check in mature locations. New landlords in emerging markets will see vacancy rates rise over the next few years, and will face additional challenges in attracting the correct tenant mixes and brands. This will lead to many landlords offering very competitive rents, resulting in downward pressure on rental growth.

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