

# Briefing Retail sector

November 2014



Image: Taikoo Hui, Tianhe Bei

## SUMMARY

Rents within the Guangzhou retail market recorded a slight fall as several projects in traditional retail districts made tenant adjustments to meet weakened demand.

- Retail sales in the first nine months of 2014 reached RMB574.2 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 12.5%.
- No new retail projects were launched onto the market this quarter, leaving total market stock at around 3.8 million sq m.
- Prime first-floor shopping mall rents fell 0.7% YoY to an average of RMB662.9 per sq m per month.
- Rental gaps between key and emerging retail districts widened as prime retail districts remained the first choice for retailers entering Guangzhou. Projects in key areas are undergoing tenant adjustments to attract stable footfall, and projects in emerging areas will need to provide rental incentives to attract quality tenants, due to the current unsatisfactory occupancy rates.

“Although the recently released stimulation policies partly improved national consumer confidence, the retail market remains under pressure, pushing some landlords to lower rents to attract a limited pool of retailers.”

Lucy Lui, Savills Research

➔ **Market overview**

The central government has recently released policies designed to stimulate the economy, which has resulted in improved consumer confidence, to a certain extent. Retail sales in Guangzhou have also seen a small recovery in Q3/2014; however, it was at a slower growth rate than 2013.

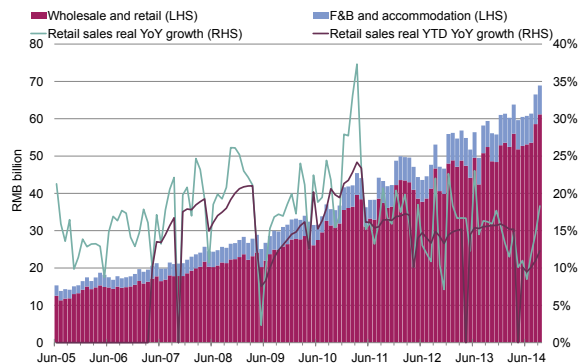
During the first nine months of 2014, total retail sales of consumer goods reached RMB574.2 billion, leaving YTD YoY real growth at 12.5%, expanding 2.0 percentage points (ppts) quarter-on-quarter (QoQ).

Wholesale and retail sales reached RMB503.8 billion for the first three quarters of 2014, up 13.3% YoY, while F&B and accommodation sales totalled RMB70.4 billion, up 7.2% YoY.

**Supply**

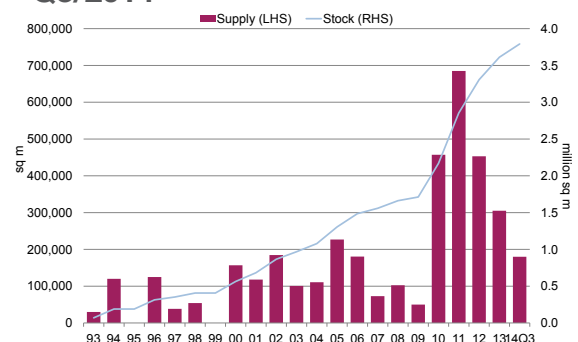
No new projects were handed over in Q3/2014, leaving retail market stock at 3.8 million sq m, bringing YTD new supply volume to 180,000 sq m.

GRAPH 1 **Retail sales, Jun 2005 – Sep 2014**



Source: Savills Research

GRAPH 2 **Shopping mall supply and stock, 1993 – Q3/2014**



Source: Savills Research

TABLE 1 **Key future projects, Q4/2014**

Project	District	Size (sq m)
Wanda Panyu Plaza	Panyu district	190,000
G.T. Land Seasons Mall – Winter	Zhujiang New Town	100,000

Source: Savills Research

In Q4/2014, two new projects are expected to enter the market – Wanda Square in Panyu and G.T. Land Seasons Mall – Winter in Zhujiang New Town – providing surrounding residents with a variety of retail options. Although Capital Mall Sky+ in Baiyun district and Aeon Mall in Panyu district were originally expected to be launched in 2014, a delay in the construction process for both projects has delayed their launches until next year. As a result, new supply expected in 2014 will total 470,000 sq m, up 54.1% YoY.

**Rents**

As landlords take active measures to attract a limited pool of retailers and compete with the e-commerce market, retail rents have been reduced in several projects within prime districts. As a result, city-wide rents in Q3/2014 recorded a slight decrease to an average of RMB662.9 per sq m per month, falling 0.2% QoQ. Retail rents are expected to face downward pressure in the short term.

The Tianhe Bei district continues to mature as retailers continue to view the area as the first choice when entering the Guangzhou retail market. Projects in Tianhe Bei have become more aggressive about adjusting tenant mix and increasing the amount of lifestyle stores (for example, Grandview Mall turned 34,000 sq m into an aquarium). The Yuexiu district is also taking measures to make adjustments, but prefers to lower rents to increase occupancy rates, which has led to an expected overall decrease in rents in the area.

City-wide prime retail rents varied greatly between districts. Rents in prime retail areas remained relatively high at above RMB1,000 per sq m per month, while in emerging areas, rents are now less than half those in prime retail areas.

Benefiting from the advantageous location and steady footfall, rents in Tianhe Bei district increased to an average of over RMB1,100 per sq m per month. However, projects in emerging areas, such as the Panyu and Baiyun districts, are also showing stable growth due to the increasing amounts of residents in the surrounding neighbourhoods.

**Retailer information**

As several projects are making efforts to adjust their tenant mix (such as Taikoo Hui and Grandview Mall in the Tianhe district), many brands are taking the chance to open their first stores in Guangzhou. For example:

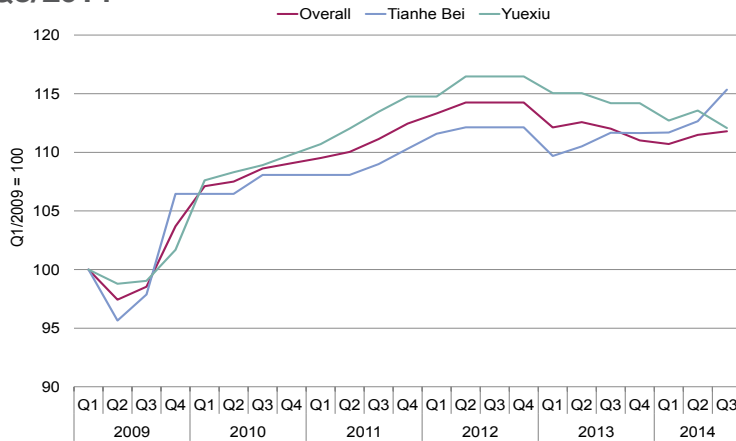
- Roger Vivier, a French luxury shoe brand, opened a 200 sq m store in Taikoo Hui mall. Around 30 brands are scheduled to open their stores in Taikoo Hui over the next few months as the project goes through tenant adjustment for over half of its stores. Brands such as Givenchy, Kenzo, Sandro and TWG Tea Salon & Boutique will soon open stores in Taikoo Hui.

- GAP, an American fast-fashion brand, will open its first store in the Wanda Panyu Plaza in November with an estimated store area of around 1,000 sq m. Additionally, GAP is planning to open several new stores in Guangzhou, including one in Grandview Mall which is scheduled to open in 1H/2015.

- Muji, a Japanese fast-fashion brand, opened a 500 sq m new store in Metropolitan Plaza in the Liwan district.

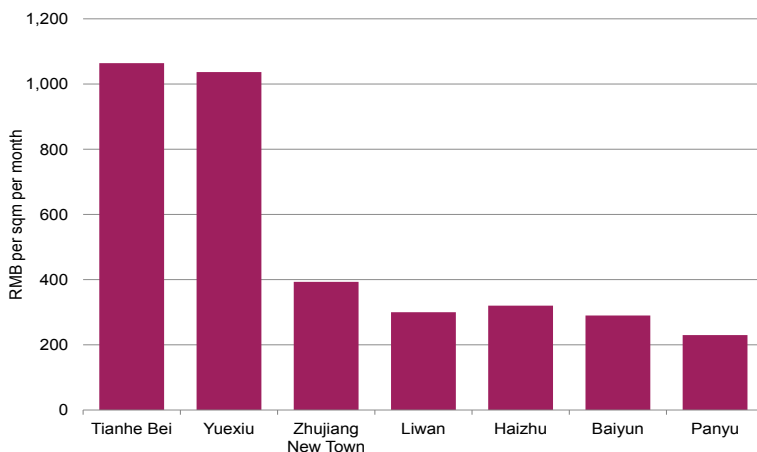
- Zara, a Spanish fast-fashion brand, will open a new store in Wanda Panyu Plaza in November taking up an estimated area of around 500 sq m.

GRAPH 3 Shopping mall first-floor rental indices, Q1/2009 – Q3/2014



Source: Savills Research

GRAPH 4 Shopping mall first-floor rents by district, Q3/2014



Source: Savills Research

## OUTLOOK

As retailers are more cautious about expanding, and even cut the amount of new stores planned, landlords are finding it more difficult to obtain satisfactory occupancy rates. New supply in emerging areas and rental discount could be made in order to attract quality brands.

- Two new retail projects are expected to be handed over in the Q4/2014, adding a combined GFA of 290,000 sq m to the market. Expected new supply is all located in emerging areas, such as the Panyu district and Zhujiang New Town, which will also provide over 85% of new supply in the next two years. The launch of these new projects is expected to update the overall market.

- Competition between retail projects is expected to intensify after the large amount of scheduled new supply enters the market. Due to the less optimistic national retail sales, city-wide rental growth will be limited and may experience downward pressure in the short- to middle-term. Further efforts for shopping malls will attract additional lifestyle brands and they will be looking to provide new technologies, including wifi and interactive games, in order to maintain higher footfall. Overall, the retail market is expected to continue the current trend of adjustments.

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