

Briefing Retail sector

January 2015



Image: Central Park Plaza, TianheBei

SUMMARY

Rents in the Guangzhou retail market continued to decline in Q4/2014, while projects intensified efforts to obtain steady footfall and satisfactory occupancy rates.

- Retail sales in the first eleven months of 2014 reached RMB701.4 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 12.3%.

- Two new retail projects were launched onto the market this quarter, pushing 2014 annual supply volume to 470,000 sq m. Total market stock reached 4.08 million sq m.

- Prime first-floor shopping mall rents increased 0.4% YoY to an

average of RMB663.5 per sq m per month.

- Projects in key areas are taking aggressive measures to adjust tenant mix, such as decreasing the amount of space allocated to traditional department stores in order to maintain substantial footfall. New projects in emerging areas are facing the challenge of attracting suitable brands and are offering incentives to improve occupancy rates.

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 “Projects in key areas are undergoing tenant adjustments in order to attract stable footfall, while projects in emerging areas need to provide rental discounts to attract quality tenants.” Sam He, Savills Research

➔ **Market overview**

Approaching the end of 2014, retail sales partly improved due to the increasing amount of holiday promotions both online and offline. However, the growth of overall retail sales remained limited due to the slowing of the domestic economy and, in turn, domestic consumption. Retail sales growth in Guangzhou managed to remain stable in 2014, but declined YoY.

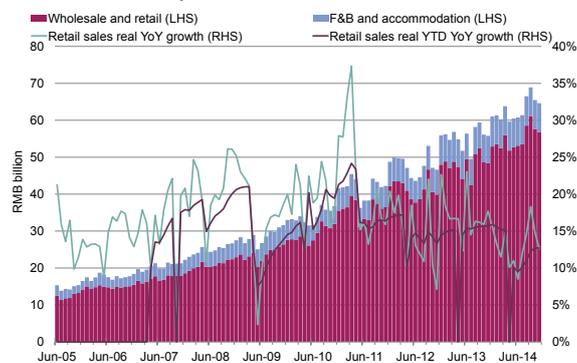
During the first eleven months of 2014, total retail sales of consumer goods reached RMB701.4 billion, leaving YTD YoY real growth at 12.3%, decreasing 2.0 percentage points (ppts) quarter-on-quarter (QoQ).

Wholesale and retail sales reached RMB615.2 billion for the first eleven months of 2014, up 12.9% YoY, while F&B and accommodation sales totalled RMB86.2 billion, up 7.7% YoY.

Supply

Two new projects were handed over in Q4/2014, adding 290,000 sq m of retail space to the market. The amount of new supply in 2014 reached 470,000 sq m, which was the highest level recorded since 2011.

GRAPH 1 **Retail sales, Jun2005–Nov2014**



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

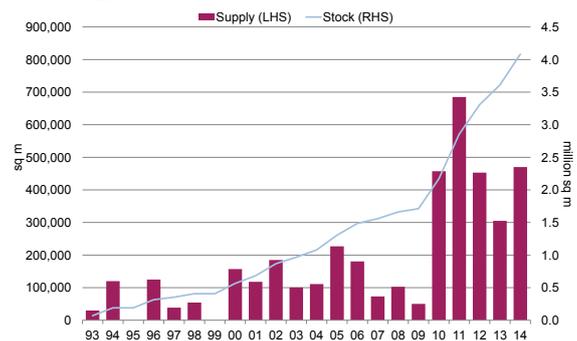


TABLE 1 **Key future projects, 2015**

Project	District	Size (sq m)
AEON Shopping mall	Panyu	170,000
Nansha Wanda Plaza	Nansha	120,000
CapitaMall SKY+	Baiyun	86,000
R&F Haizhu Plaza	Haizhu	60,000
Park Central Plaza	Tianhe	47,000
A Mall	Yuexiu	20,000

Source: Savills Research

Retail market stock of Guangzhou reached 4.08 million sq m.

Panyu Wanda Plaza opened for business on November 8, the third Wanda Plaza in Guangzhou city, after Baiyun Wanda Plaza (2010) and Zengcheng Plaza (Q2/2014). American fast-fashion brand, GAP launched its first store in Guangzhou in this project, along with the IMAX cinema of Wanda Group. With a retail area of around 180,000 sq m, Panyu Wanda Plaza provides fashion brands including Zara and Uniqlo for the neighbourhood.

The retail market is expected to receive six new projects in the next year, with two located in the key districts of Tianhe and Yuexiu. The amount of new supply coming onto the market in 2015 is estimated to be over 500,000 sq m.

Rents

Shopping malls in Guangzhou city took several measures to maintain footfall and occupancy rates, including offering rent incentives, especially for some overseas fashion brands. As a result, city-wide rents recorded a slight decrease to an average of RMB663.5 per sq m per month, falling 0.3% QoQ, up 0.4% YoY.

With a large influx of new supply entering the retail market, competition to win suitable tenants will be intensified. New projects may need more time to achieve satisfactory occupancy rates than before, while projects in traditional retail areas like the Yuexiu district will find it more difficult to attract retailers due to the older, lower quality facilities in shopping malls.

Meanwhile, shopping malls are facing the challenge of the online e-commerce market, which is said to already occupy a large market share in the low- to middle-level market. Therefore, retail rents are expected to see downward pressure in the short term.

City-wide prime retail rents vary between districts. Key areas

such as Tianhe Bei and Yuexiu are achieving relatively high rents (above RMB1,000 per sq m per month), while in emerging areas such as Zhujiang New Town, and the Liwan and Panyu districts, retail rents only reach between RMB200 to 400 per sq m per month – less than half of those in key areas. This kind of performance is anticipated to continue in the short term.

The Tianhe Bei area remained the first choice for quality retailers entering the Guangzhou market, with several retailers opening their flagship stores in this area – Uniqlo opened their 5,000sq m southern China flagship store in Victoria Plaza in Tianhe Bei. Owners of shopping malls are taking measures to obtain the most suitable tenant mix to maintain steady footfall. For instance, Grandview Mall repositioned itself as a family fashion experience centre by allocating more space for lifestyle stores and a installing a 50,000sq m indoor aquarium.

Retailer information

In Several projects in Tianhe Bei and Zhujiang New Town are making efforts to adjust their tenant mix. Retailers such as fast-fashion brands are taking steps to opening new stores in Guangzhou. For example:

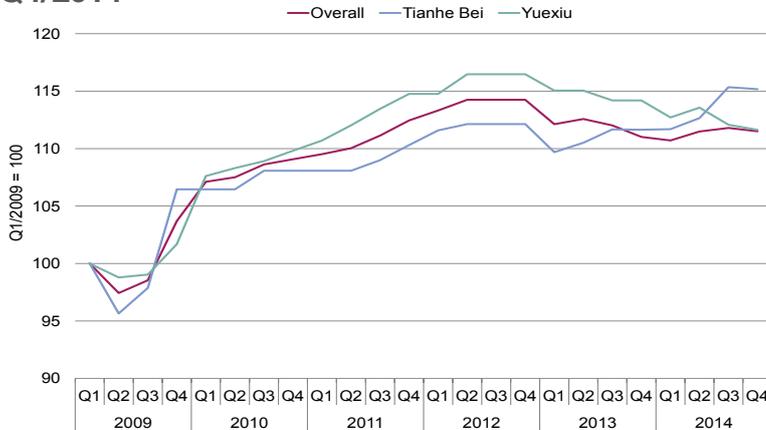
- UR, a French fast-fashion brand, opened two new stores in Q4/2014; one 1,500sq m store in PoPark Plaza in the Tianhe district and another in G.T Land Spring Square in Zhujiang New town with a store area of 1,000 sq m.

- H&M, a Swedish fast-fashion brand, also opened two new stores in Q4/2014; a 1,200sq m store in Po Park Plaza and a 2,000sq m shop in Peace world Plaza in the Yuexiu district.

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

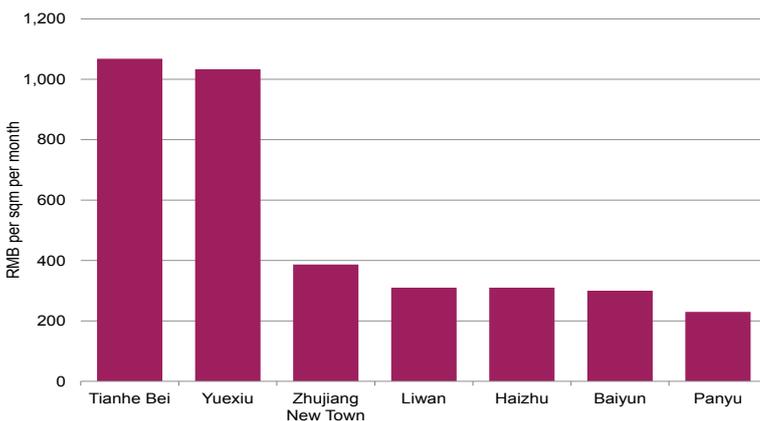
- Mothercare, a baby products brand from the UK, will open their first store in Guangzhou at G.T Land Winter Plaza, with a store area of 250 sq m. ■

GRAPH 3
Shopping mall first-floor rental indices, Q1/2009–Q4/2014



Source: Savills Research

GRAPH 4
Shopping mall first-floor rents by district, Q4/2014



Source: Savills Research

OUTLOOK

The market will continue to see an influx of new supply. Projects located in emerging areas will need more time to obtain satisfactory occupancy rates, mainly due to the slowing of domestic consumption.

- Six new retail projects are expected to be handed over in 2015, adding a combined GFA of over 500,000 sq m to the market. Among these projects, four are located in emerging areas such as the Panyu and Nansha districts. Meanwhile, Tianhe Bei will also see a new high-quality project opening – Central Park Plaza, developed by Sun Hung Kai Properties. A number of overseas brands are expected to launch their new stores in the projects.

- As many retailers are more cautious about expanding, and have even cut the amount of new stores planned, landlords will find it more difficult to obtain satisfactory occupancy rates. Market competition between retail projects is intensifying as a large amount of scheduled new supply enters the market. Moreover, new supply in emerging areas will need more time to obtain satisfactory occupancy rates and rental discounts could be made in order to attract quality brands.

- Due to the less optimistic national retail sales, city-wide rental growth will be limited and may experience downward pressure in the short- to mid-term. Shopping malls will continue making further efforts to attract additional lifestyle stores, while tenant adjustments are expected to continue in not just projects in key areas but also projects opening in emerging areas, in order to achieve higher footfall. Overall, the retail market is expected to continue the current trend of adjustments.

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