

Briefing Retail sector

May 2015



Image: G5 Mall, Baiyun

SUMMARY

Guangzhou retail market shopping mall rents continued to decline in Q1/2015, and no new projects entered the market.

- Retail sales in the first two months of 2015 reached RMB133.9 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 11.5%.
- No new retail projects were launched onto the market this quarter, leaving market stock unchanged at 3.8 million sq m
- First-floor rents of prime shopping malls fell 0.5% quarter-on-quarter (QoQ) to an average of RMB661.2 per sq m per month
- Prime shopping mall city-wide vacancy rates remained at 1.5% in Q1/2015, with projects in key areas almost fully occupied.

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 “After a period of tenant adjustments, the majority of shopping malls are now achieving satisfactory occupancy rates with city-wide vacancy rates falling to 1.5%.”

 Sam He, Savills Research

➔ Market overview

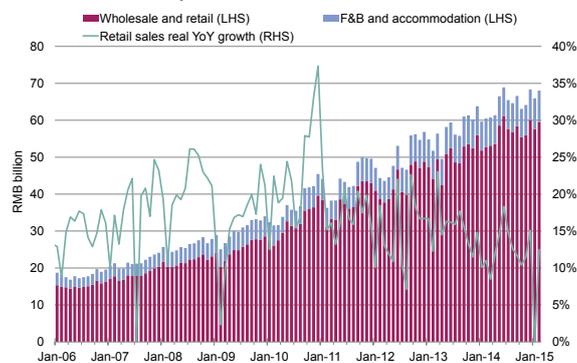
Retail sales in Guangzhou managed to maintain a stable growth in January and February 2015, registering a YTD YoY real growth of 11.5%, with total retail sales of consumer goods reaching RMB 133.9 billion. The retail sales growth performed much better than the other three first-tier cities, as Beijing registered a 7.8% YoY growth, Shanghai increased 8.1% YoY and Shenzhen only achieved a YoY growth of 0.6%.

Wholesale and retail sales in Guangzhou reached RMB117.1 billion for the first two months of 2015, up 12.1% YoY, while F&B and accommodation sales totalled RMB16.7 billion, up 7.8% YoY. Market sales from E-commerce and consumer electronics have gained substantial growth over the last few months.

Supply

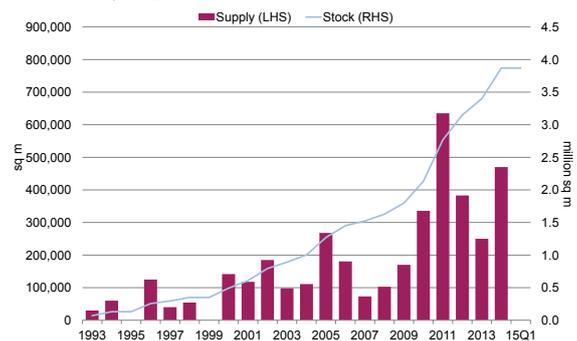
No new retail projects were launched onto the market in Q1/2015, leaving

GRAPH 1 Retail sales, Jan2006–Feb2015



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 Shopping mall supply and stock, 1993–Q1/2015



Source: Savills Research

TABLE 1 Key future projects, Q2-Q4/2015

Project	District	Size (sq m)	Expected Handover Date
AEON Mall Panyu	Panyu	170,000	Q4/2015
Nansha Wanda Plaza	Nansha	120,000	Q4/2015
CapitaMall SKY+	Baiyun	86,000	Q4/2015
Park Central Plaza	Tianhe Bei	65,000	Q3/2015
R&F Haizhu Plaza	Haizhu	60,000	Q4/2015

Source: Savills Research

market stock unchanged at 3.8 million sq m. However, the amount of new supply in Guangzhou during the remainder of 2015 is expected to reach over 500,000 sq m. The majority of new shopping malls are scheduled to enter the market in the third or fourth quarter, resulting in the highest supply level recorded since 2011.

Currently, the majority of supply is entering prime areas such as Tianhe Road and the Yuexiu district, accounting for nearly 60% of the market stock by the end of Q1/2015. As new projects located in emerging areas enter the market over the next two to three years, the focus of supply may shift to these areas.

Rents

After a period of tenant adjustment over the last twelve months, shopping malls in Guangzhou are now witnessing improved occupancy rates. Overall rents recorded a slight decrease to an average of RMB661.2 per sq m per month, falling 0.5% QoQ, up 0.2% YoY.

In order to maintain footfall levels, lifestyle stores are now taking a larger portion of space within shopping malls, totalling about 28.2% of city-wide stock. As a result, rental growth is being suppressed as these stores pay much lower rents compared to other retailers.

Meanwhile, prime shopping mall vacancy rates remained at 1.5% in Q1/2015, indicating a healthy retail market in Guangzhou. Projects such as Grandview Mall, Tee Mall and Taikoo Hui in the Tianhe Bei area have achieved 100% occupancy rates.

First-floor rents in key areas, such as Tianhe Bei and Yuexiu, continued to remain above RMB1,000 per sq m per month. Landlords of shopping malls have taken measures to obtain steady footfall, including introducing a series of new overseas brands that have launched stores in these two areas, attracting consumers from the whole city and neighbouring cities.

Rents in emerging areas have also remained stable this quarter at around RMB200-400 per sq m per month. Retail projects in emerging areas aim to target nearby communities within a range of three to five kilometres.

Retailer information

Although many retailers are becoming cautious in regards to store expansion, a number of retailers are still continuing to take steps, opening their first store or new stores in Guangzhou. For example:

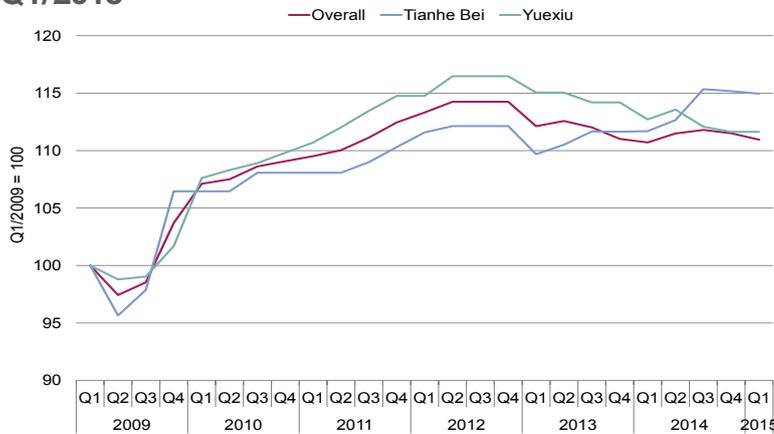
Victoria's Secret, an American lingerie brand, opened two new stores in Q1/2015, one store in Taikoo Hui and another in Tee Mall in Tianhe Bei, both with a store area of around 100 sq m.

- GAP, an American fast-fashion brand, also opened its second store this quarter; a two floor store in Grandview Mall in Tianhe Bei, with a store area of around 1,500 sq m.

- Mothercare, a baby products brand from the UK, launched its first store in Guangzhou in G.T Land Winter Plaza in Zhujiang New Town, with a store area of 250 sq m.

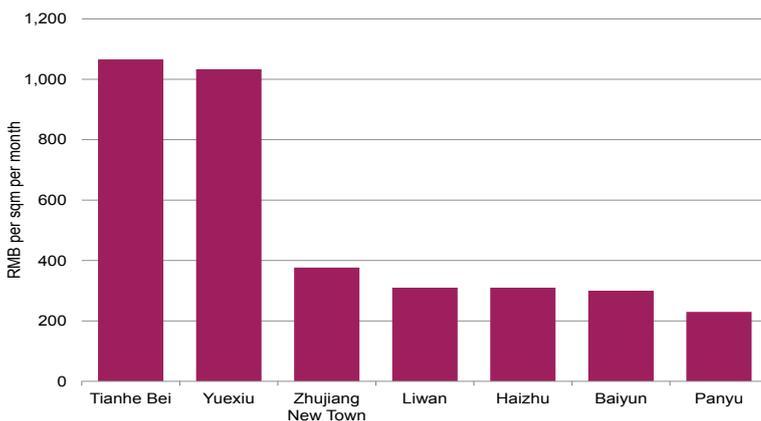
- H&M, a Swedish fast-fashion brand, will open a new store in Happy Valley in Zhujiang New Town, with an estimated store area of around 1,500 sq m. ■

GRAPH 3
Shopping mall first-floor rental indices, Q1/2009–Q1/2015



Source: Savills Research

GRAPH 4
Shopping mall first-floor rents by district, Q1/2015



Source: Savills Research

OUTLOOK

Relatively high growth levels of retail sales in Guangzhou will help generate higher levels of footfall within shopping malls, while overall rents are expected to remain stable over the next year.

- The Guangzhou retail market is expected to see several new high-end projects enter the market in the next three quarters, including the Park Central Plaza in the Tianhe district and CapitaMall Sky+ in the Baiyun district. 87% of new supply is located in emerging areas such as the Panyu and Baiyun districts. According to the current levels of construction, all five new projects are estimated to open during the second half of 2015. A number of internationally-renowned retailers are expected to launch stores in these projects, facilitating the upgrade of the overall retail market.

- The Guangzhou retail market is expected to continue a period of adjustment in order to react to consumer demands and compete with increasingly popular e-commerce platforms. Lifestyle stores will continue to expand within shopping malls both in key areas and emerging areas, helping to absorb incoming new supply. Most prime retail projects have vacancy rates lower than 5% which indicates a healthy retail market in Guangzhou.

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