

Briefing Retail sector

July 2015



Image: Park Centre Plaza, Tianhe

SUMMARY

The Guangzhou retail market saw one new shopping mall open for business in Q2/2015, adding around 40,000 sq m of retail space to the market.

- Retail sales in the first five months of 2015 reached RMB313.3 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 10.7%.

- One new retail project, Wonder Land, opened for business this quarter, adding around 40,000 sq m and pushing retail market stock up to 3.9 million sq m.

- First-floor rents of prime shopping malls fell 0.4% quarter-on-quarter (QoQ) to an average of RMB658.8 per sq m per month.

- City-wide shopping mall vacancy rates continued to remain low, around 2.6%, at Q2/2015, mostly due to the mature retail sales atmosphere in Guangzhou city.

“Retail sales slowed in the second quarter but maintained reasonable growth levels, while city-wide rents also registered a slight decline” Sam He, Savills Research

→ Market overview

Overall retail sales in Guangzhou witnessed stable growth during the first five months of 2015, registering a YTD YoY growth of 10.7%. Retail sales of consumer goods totalled RMB 313.3 billion. As a historic business hub of southern China, Guangzhou has always shown strong performance in terms of retail sales.

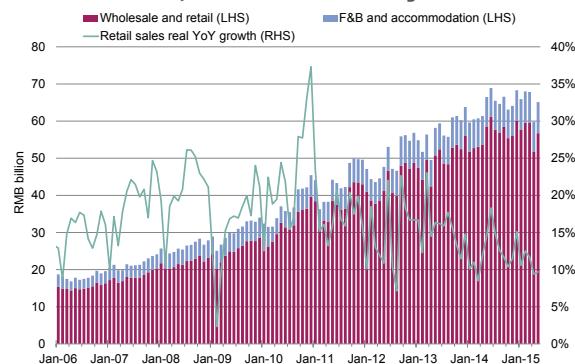
Wholesale and retail sales in Guangzhou reached RMB285.1 billion during the first five months of 2015, down 10.9% YoY, while F&B and accommodation sales totalled RMB41.61 billion, up 9.6% YoY. Market sales from E-commerce and consumer electronics witnessed a significant increase, up 54.3% YoY, and are expected to maintain substantial growth in the coming months.

Supply

One new retail project, Wonder Land, located in Baiyun New Town, opened for business this quarter, adding 40,000 sq m to the market. The stock

GRAPH 1

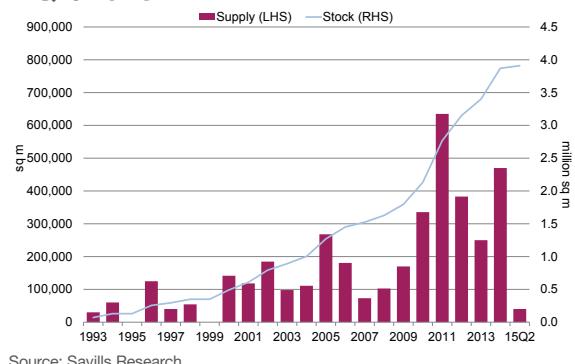
Retail sales, Jan 2006 – May 2015



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2

Shopping mall supply and stock, 1993 – Q2/2015



Source: Savills Research

TABLE 1
Key future projects, Q3/2015

Project	District	Size (sq m)	Expected Handover Date
Luogang Wanda Plaza	Huangpu	80,000	July, 2015
R&F Haizhu Plaza	Haizhu	60,000	August, 2015

Source: Savills Research

of retail properties in Baiyun New Town has now reached 420,000 sq m. This area is expected to witness the launch of another project by the end of 2015, bringing the district retail market stock to 500,000 sq m.

Wonder Land, developed by the Greenland Group, held its soft opening in June. The project is located above Baiyun Park metro station (line 3), and aims to be a mid-to high-end lifestyle shopping centre, with lifestyle stores accounting for over 70% of the space.

The limited residential population in Baiyun New Town is expected to suppress footfall levels of shopping malls in the area in the short term. Compared to other prime areas, new projects are likely to face greater challenges to attract a suitable tenant mix after launch.

Rents

Overall retail rents witnessed a continuous decrease to an average of RMB658.8 per sq m per month in Q2/2015, falling 0.4% QoQ and 0.7% YoY. However, rents of prime shopping malls in Tianhe Bei area recorded a slight increase.

Market competition in the Guangzhou retail market looks set to intensify as a number of new high-quality shopping malls are scheduled to enter the market in the coming two years. Due to slowing domestic retail sales, landlords will need to take measures to obtain stable footfalls, including providing rental incentives to suitable tenants, especially in emerging areas. Therefore, city-wide rents are expected to witness a downward pressure for the next few quarters.

The prime retail areas of Tianhe Bei and Yuexiu have successfully attracted consumers from Guangzhou and neighbouring cities.

As a result, first-floor rents in these two districts have remained above RMB1,000 per sq m per month and are expected to remain high in the short term.

Shopping malls in emerging areas such as Liwan, Haizhu, Baiyun and Panyu are mostly aiming to attract consumers from nearby communities and residents within a five-kilometre radius. Rents in these areas have remained stable at around RMB300 per sq m per month.

As several new high-end shopping malls are scheduled to enter the market during the next two years, Zhujiang New Town is expected to witness an increase in rents.

Retailer information

Projects in Tianhe Bei area continued to go through a period of tenant adjustment, while new projects are introducing new brands to the market, helping to upgrade the retail market as a whole. For example:

Kenzo, a French high-end fashion brand, launched its first store in Guangzhou in Taikoo Hui in Tianhe Bei area, with a store area of 180 sq m.

I.T., a fast-fashion brand from Hong Kong, also opened its first store in Taikoo Hui this quarter, with a store area of 400 sq m.

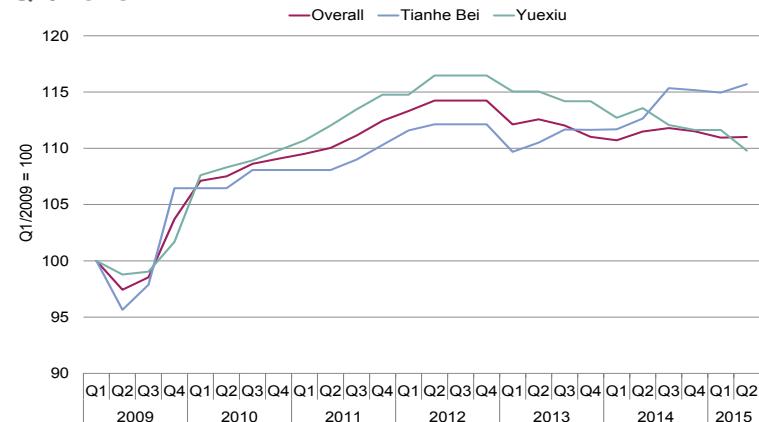
Miss Sixty, an Italian fashion brand, opened a new store in Taikoo Hui with a store area of 350 sq m.

Decathlon, a French sports brand, opened a new 2,000 sq m store in Metropolitan Plaza in Liwan district.

SPAOPA, a Korean fast-fashion brand, will open its first store in southern China in R&F Haizhu Plaza in Haizhu district, with an estimated store area of around 1,000 sq m. ■

GRAPH 3

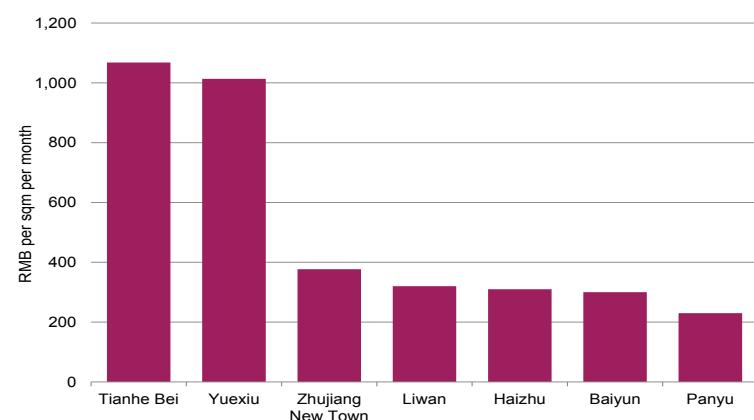
Shopping mall first-floor rental indices, Q1/2009 – Q2/2015



Source: Savills Research

GRAPH 4

Shopping mall first-floor rents by district, Q2/2015



Source: Savills Research

OUTLOOK

Projects in prime areas are expected to record high rents and occupancy rates due to limited new supply, while projects in emerging areas continue to face challenges to attract satisfactory footfall.

- The Guangzhou retail market is expected to see two new projects enter the market during the next quarter, adding a total GFA of around 140,000 sq m. Both shopping malls are located in emerging areas, targeting surrounding communities. As a result, city-wide vacancy rates are expected to increase. Meanwhile, given that overall retail sales growth rate continues to slow, new projects will face a greater challenge in attracting suitable tenants and maintaining steady footfall, placing a downward pressure on rental growth.

- Tenants such as F&B stores, fast-fashion brands and other lifestyle stores, are expected to continue expanding over the next few months. New brands will continue to be introduced to the market, helping to upgrade the overall retail market.

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