

Briefing Retail sector

October 2015



Image: TaiKoo Hui, Tianhe Bei

SUMMARY

The Guangzhou retail market saw one new project handed over in Q3/2015 and is expected to receive four more in the next quarter, leading to increasing competition and greater challenges for landlords.

- Retail sales in the first eight months of 2015 reached RMB 512.5 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 11.4%.

- One new retail project, Wanda Square, opened for business this quarter, adding 80,000 sq m and pushing retail market stock up to around four million sq m.

- Prime shopping mall first-floor rents increased 0.1% quarter-on-quarter (QoQ) to an average of RMB705.9 per sq m per month.

- City-wide shopping mall vacancy rates continued to remain low, staying under 3%.

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 “Retail sales are expected to continue to increase at a stable rate, while retail rents in prime areas will maintain a high and stable level of growth.” Sam He, Savills Research

→ Market overview

Retail sales continued to maintain a stable growth in Q3/2015, registering YTD YoY growth of 11.4%, totalling RMB512.5 billion. This was a strong performance, and due to its significant financial status in southern China, retail sales of consumer goods reached RMB72.06 billion.

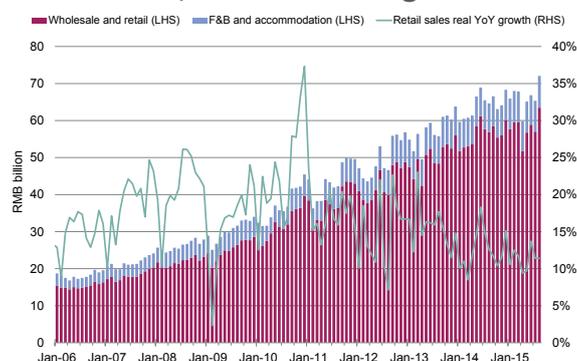
Wholesale and retail sales increased 11.7% and 10.0% YoY in Q3/2015, reaching an average of RMB60.24 billion and RMB8.46 billion respectively. E-commerce and consumer electronics sales saw a huge increase, up 62.9% YoY, and are expected to see significant growth within the last quarter of 2015.

Supply

One new retail project, Wanda Plaza Luogang, opened for business this quarter, adding 80,000 sq m to the market and pushing the total stock up to around four million sq m. Four shopping malls are scheduled to enter the Guangzhou retail market in the final quarter of 2015, expected to total 436,000 sq m.

GRAPH 1

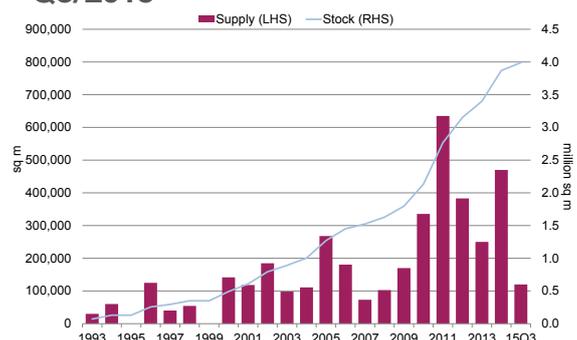
Retail sales, Jan 2006 – Aug 2015



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2

Shopping mall supply and stock, 1993 – Q3/2015



Source: Savills Research

TABLE 1

Key future projects, Q3/2015

Project	District	Size (sq m)	Expected Handover Date
R&F Haizhu Plaza	Haizhu	60,000	October, 2015
CapitaMall SKY+	Baiyun	86,000	December, 2015
Wanda Plaza Nansha	Nansha	120,000	December, 2015
Aeon Mall Panyu	Panyu	170,000	December, 2015

Source: Savills Research

Located in Guangzhou Science City, Wanda Plaza Luogang opened in July and is the fourth one-stop shopping mall developed by the Wanda Group in Guangzhou. Wanda Plaza Luogang aims to provide a one-stop mall for fast-fashion and lifestyle retailers. Although Guangzhou Science City remains in the initial stage of development, the high occupancy rates of surrounding residential projects will provide sufficient and stable consumers. As the surrounding infrastructure matures, including the construction of the metro lines, this area is expected to become more attractive for both retailers and consumers.

Rents

Overall retail rents remained stable in Q3/2015, increasing 0.1% QoQ to an average of RMB705.9 per sq m per month in Q3/2015, up 0.1% YoY. While the Zhujiang New Town and Tianhe Bei areas saw an increase of retail rents, up 0.7% QoQ in both areas, other areas saw a decrease during the same period.

The Guangzhou retail market is becoming more challenging as more prime shopping malls are scheduled to enter the market in the following months. Attracting suitable tenants and obtaining stable footfall has become challenging for landlords, especially as retail sales are growing at a slower pace than previously.

Meanwhile, overall prime shopping mall vacancy rates remained low, at around 2.7% in Q3/2015, with projects in the Tianhe Bei district, such as Teemall, Taikoo Hui and Grandview Mall, achieving occupancy rates of 100%, 99.93% and 99.41%, respectively.

Due to a mature retail atmosphere, the prime retail areas of Tianhe Bei and

Yuexiu continue to attract consumers from Guangzhou and nearby neighbouring cities. Consequently, first-floor rents in both the Tianhe Bei and Yuexiu areas were stable, reaching RMB1,150 sq m per month and RMB1,083 sq m per month, respectively. First-floor rents of a few high-quality projects saw an increasing trend, and first-floor rents in prime retail areas are expected to remain high.

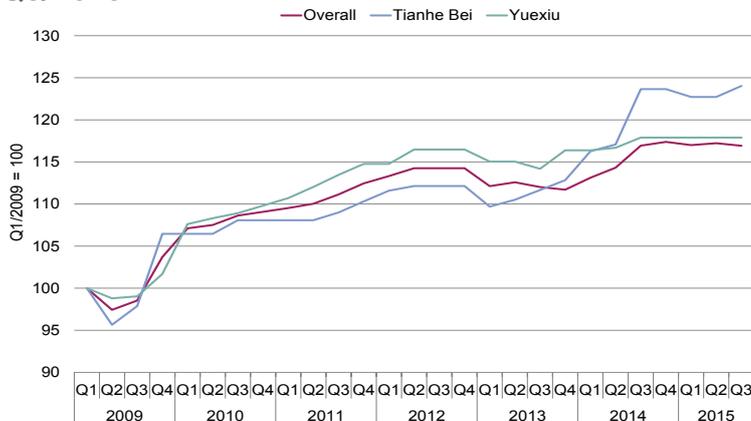
On the other hand, shopping malls in emerging areas such as Liwan, Haizhu, Panyu and Baiyun, aim to attract residents from surrounding neighbourhoods. As the proportion of catering and entertainment related retailers increase in these areas, which have lower available budgets, a downward pressure is expected to be placed on rents.

Retailer information

Taikoo Hui continued to experience a period of adjustment, introducing a variety of international brands to the market. A number of these launched their first stores in Guangzhou, including:

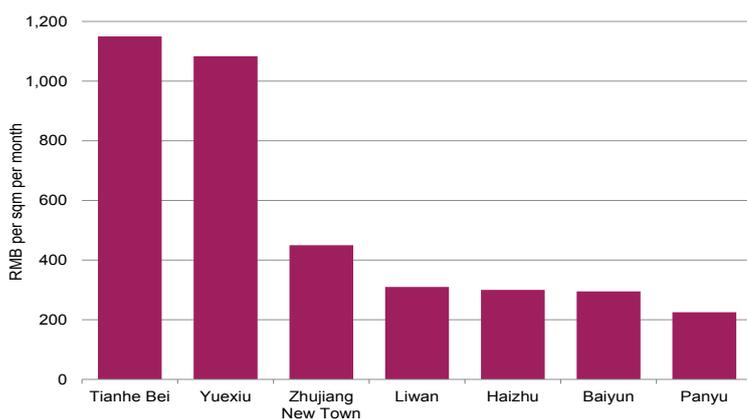
- Agent Provocateur, a British fashion underwear brand, opened its first store in Taikoo Hui this quarter, with a store area of around 100 sq m.
- Jo Malone, a well-known British perfume and skin-care brand, launched its first store in Taikoo Hui, with a store area of around 80 sq m.
- New Look, a British fast-fashion brand, launched its first store in Happy Valley, with a store area of 180 sq m.
- H&M, a Swedish fast-fashion brand, opened a new store in Happy Valley, with a store area up to 1,900 sq m. ■

GRAPH 3 Shopping mall first-floor rental indices, Q1/2009 – Q3/2015



Source: Savills Research

GRAPH 4 Shopping mall first-floor rents by district, Q3/2015



Source: Savills Research

OUTLOOK

The Guangzhou retail market is expected to see vacancy rates increase as four projects enter the market in Q4/2015. As landlords are likely to face greater challenges to maintain considerable footfall, this will place a downward pressure on rental growth.

- The Guangzhou retail market is expected to welcome four new projects into the market in Q4/2015, adding a total GFA of around 436,000 sq m. All located in emerging areas, the projects aim to target surrounding neighbourhood communities. As a result, city-wide vacancy rates are expected to increase, while market rents continued to experience a downward trend. Given the amount of new projects entering the market, competition is expected to increase, with landlords continuing to face increasing challenges to maintain steady footfall and attract suitable tenants.

- The Guangzhou retail market is expected to see cross-border e-commerce companies continue to launch experiential stores in shopping malls, looking to benefit from the rapid development of free trade zones. Catering and fast-fashion brands are likely to continue to expand their presence in shopping malls in both key areas and emerging areas.

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