

Briefing Retail sector

January 2016



Image: Capital Mall SKY+, Baiyun

SUMMARY

Four retail projects were launched in Q4/2015, flooding the market with 369,000 sq m of new supply.

- Retail sales in the first 11 months of 2015 reached RMB723.4 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 11.4%.
- 369,000 sq m of prime retail space flooded onto the market as four new retail projects were launched in Q4/2015, all of them located in emerging retail areas.
- First-floor rents of prime shopping malls increased 1.2% quarter-on-quarter (QoQ) to an average of RMB707.1 per sq m per month, up 0.8% YoY.
- City-wide vacancy rates witnessed a slight increase of 1.2 percentage points (ppts) quarter-on-quarter (QoQ) to 3.9%, up 1.3 ppts YoY.

“Retail rents remained stable while vacancy rates witnessed a slight increase in the fourth quarter. Four shopping malls launched onto the market at the end of 2015, which caused certain existing projects to adjust their tenant mix. The retail market is expected to continue growing in 2016.” Sam He, Savills Research

➔ Market overview

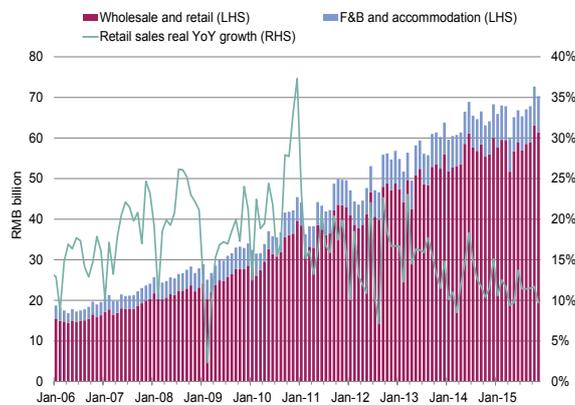
Retail sales continued to grow steadily in Q4/2015, registering a YTD, YoY growth of 11.4%, totalling RMB723.4 billion. The growth rate of retail sales in Guangzhou was the highest recorded rate amongst the first-tier cities, meaning it retains the title of the most traditional commercial centre in Southern China.

Wholesale and retail sales, as well as F&B and accommodation, slowed down this quarter, currently sitting at 11.50% and 10.30% respectively.

Supply

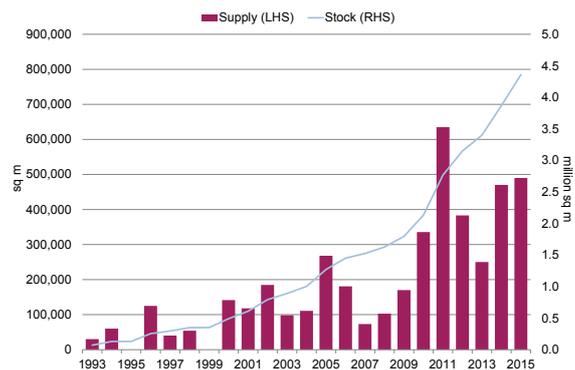
Four shopping malls entered the market in the final quarter of 2015, pushing retail stock up to 4.36 million sq m. In 2016, five shopping malls are expected to launch onto the market, adding 384,000 sq m of retail space, followed by approximately 470,800 sq m and 550,000 sq m in 2017 and 2018 respectively.

GRAPH 1 Retail sales, Jan 2006 – Nov 2015



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 Shopping mall supply and stock, 1993–2015



Source: Savills Research

TABLE 1 Key future projects, 2016

Project	District	Size (sq m)	Expected Handover Date
Parc Central	Tianhe	40,000	2016
A Mall	Yuexiu	20,000	2016
K 11	Zhujiang New Town	74,000	2016
Lee Garden Mall (Phase II)	Panyu	140,000	2016
Mingjie Plaza	Panyu	110,000	2016

Source: Savills Research

Four shopping malls located in emerging areas opened: R&F Haizhu Plaza in Haizhu; CapitaMall SKY+ in Baiyun; Aeon Mall in Panyu; and Wanda Plaza in Nansha. In addition, these four shopping malls are all managed by experienced operators and each is focused on following a particular format, for example, R&F Haizhu Plaza has adopted a Korean theme. Due to the favourable leasing conditions of these new projects, the market is expected to enter a rejuvenation period.

Rents

Overall retail rents remained stable in Q4/2015, up 1.2% QoQ and 0.8% YoY to an average of RMB707.1 per sq m per month. Due to the differences in the types of consumers frequenting the malls, market positions and operating modes, the rental differentiation of two traditional areas, Tianhe Bei and Yuexiu, is obvious. Tianhe Bei rents are up 0.9% YoY, however down 1.8% YoY in Yuexiu.

Challenged by the influx of supply, ecommerce and the slow sales growth rate, the market is becoming an increasingly competitive environment. Therefore, project management is considered to be the key differential for shopping malls, especially structural arrangement. The retail format still dominates the market, while lifestyle stores, including catering and entertainment, are seeing an increase in proportion, and make up 30% of the market

City-wide prime shopping mall vacancy rates increased slightly to 3.9%, up 1.2 pts QoQ and 1.3 pts YoY. Season Mall-Spring maintained high vacancy rates, driving overall

vacancy rates in Zhujiang New Town to increase to 10%. In the last quarter, city-wide first-floor rents remained stable at RMB707.1 sq m per month. This was partly due to some shopping malls in prime areas proactively repositioning themselves to match consumer demographics, which enabled them to attract consumers not only from Guangzhou but surrounding areas as well.

Shopping malls in emerging areas such as Liwan, Haizhu, Panyu and Baiyun, aim to attract residents in a 3km to 5km radius. Emerging areas also witnessed a growing tendency towards lifestyle stores, which saw 4% more of these stores than in prime areas.

Retailer information

Shopping malls continued to experience a period of adjustment; entertainment and catering were increasingly popular, while some new brands have also been introduced to the market.

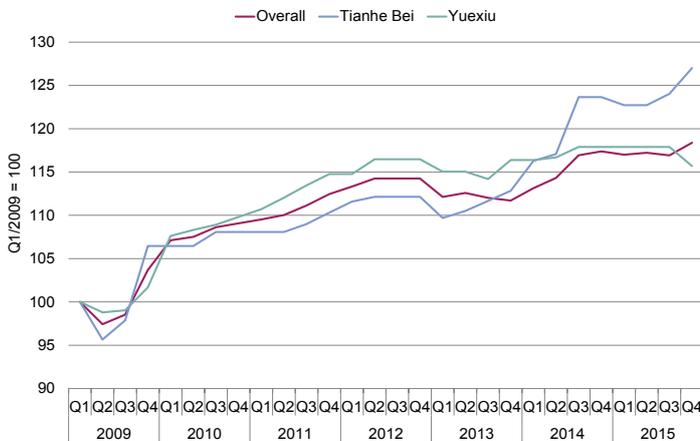
- Vivienne Westwood, a British luxury brand, opened a new store in GT Land-Winter, with a store area of around 300 sq m.

- New Look, a British fast-fashion brand, launched a new store in CapitaMall SKY+, with a store area of 150 sq m.

- Mini Concert Hall was introduced to Happy Valley, with an area of 500 sq m.

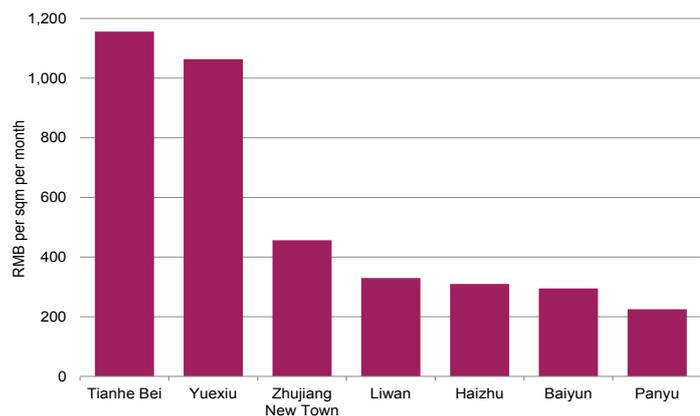
- The first indoor Ocean Park was opened for business in the Grandview Mall in January, covering an area of 58,000 sq m. ■

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



Source: Savills Research

GRAPH 4 Shopping mall first-floor rents by district, Q4/2015



Source: Savills Research

OUTLOOK

The market will see vacancy rates increase slightly as five projects are expected to enter the market in 2016. This will place a downward pressure on the retail market. However, rents in prime areas will remain stable in the following quarter.

- A number of new shopping malls are expected to launch in 2016, helping to upgrade the overall quality of offering in the market. Landlords will have to work smart and hard in order to succeed in an increasingly competitive market.
- Fast-fashion and domestic brands will continue to expand, with some renowned brands such as New Look, Old Navy and H&M launching new stores in Guangzhou. Additionally, children’s related retailers and service providers are likely to record strong growth.

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