

Briefing Retail sector

July 2016



Image: G5 Mall, Baiyun

SUMMARY

The retail market saw a decrease in rents this quarter and no new projects entering the market.

- In the first five months of 2016, city-wide retail sales reached RMB348.3 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 8.6%.
- Retail market stock remained at 4.43 million sq m this quarter, as no new projects were handed over.

- Overall, first-floor prime shopping mall rents fell 0.4% quarter-on-quarter (QoQ) to an average of RMB652.4 per sq m per month
- City-wide vacancy rates saw an increase of 1.1 percentage points (ppt) QoQ to 4.4%.

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 “City-wide first-floor rents saw a slight decrease this quarter, more so in prime areas. An influx of new supply is expected in 2H/2016, which will place downward pressure on rents.” Sam He, Savills Research

➔ **Market overview**

Retail sales saw a slight growth in Q2/2016, registering a YTD YoY real growth of 8.6%, totalling RMB348.3 billion. The city recorded first place in Q2/2016, out of first-tier cities in China, in terms of retail sales growth rate.

The growth rate of online store retail sales reached 28.8%, far higher than traditional retail sales, demonstrating strong growth in the online shopping sector.

Supply

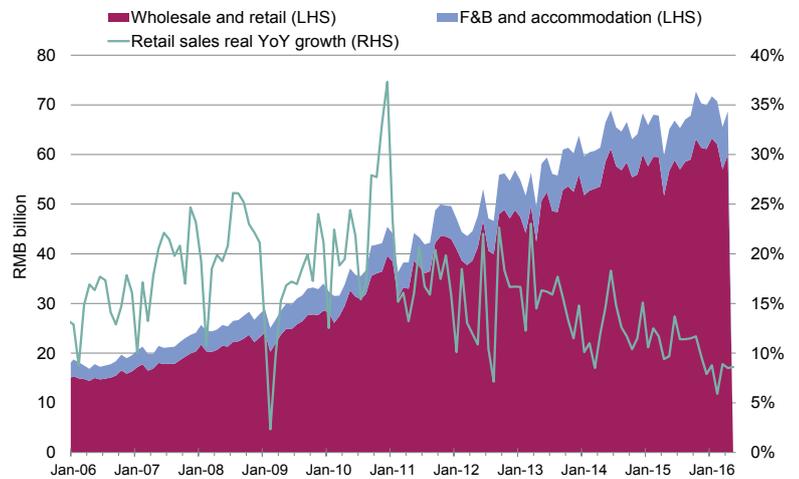
Due to no new projects being handed over this quarter, retail stock stands at 4.43 million sq m. New supply is expected to be concentrated in the second half of the year, adding approximately 270,000 sq m to the prime retail market.

Rents

Overall first-floor rents in prime shopping malls decreased 0.4% QoQ to an average of RMB652.4 per sq m per month. First-floor rents decreased 1.9% QoQ in prime areas, but increased 0.7% QoQ in non-prime areas.

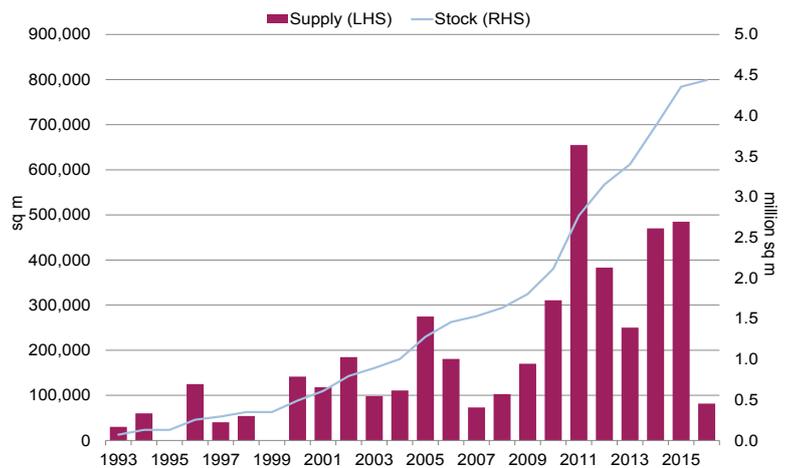
Despite increasing competition as well as the fast development of online shopping, many landlords are foregoing a portion of their profits in order to attract a more comprehensive brand portfolio, particularly experiential stores. The proportion of

GRAPH 1 **Retail sales, Jan 2006–May 2016**



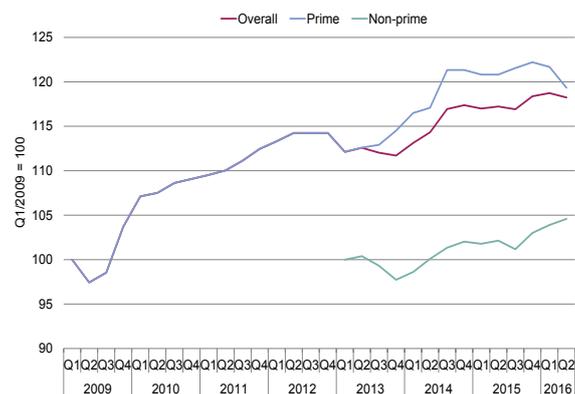
Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 **Retail sales, Jan 2006–May 2016**



Source: Savills Research

GRAPH 3 **Shopping mall first-floor rental indices, 2009–Q2/2016**



Source: Savills Research

lifestyle stores made up 35.4% this quarter, up 3 pts QoQ.

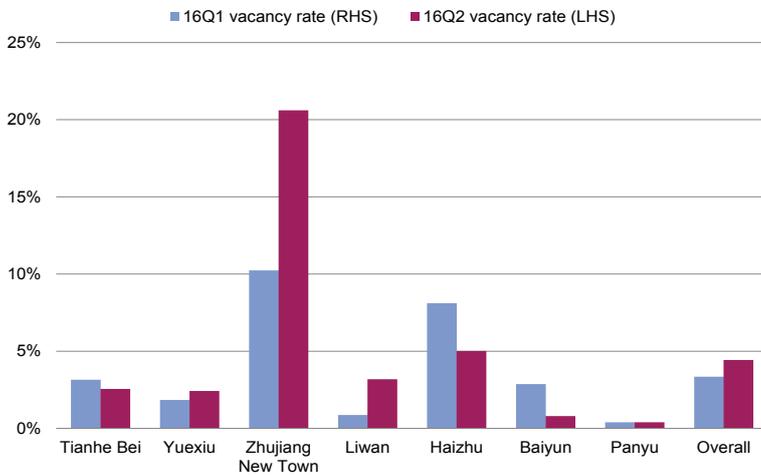
City-wide vacancy rates saw an increase of 1.1 pts QoQ to 4.4%. Projects in the Haizhu and Baiyun districts witnessed good performance in occupancy rates as a result of the favourable leasing situation during the project's teething period.

Retailer information

The retail market continued to see experiential stores and fast-fashion brands expanding, with the following brands introduced to the market this quarter:

- SiSYPHE bookstore launched its first store in the city in CapitaMall SKY+, with an area of 500 sq m.
- Pororo Children Theme Park opened its first store in southern China in R&F Haizhu Plaza, with a total area of 2,500 sq m.
- Fashion sports brand Adidas opened its first football flagship store in Teemall, with an area of approximately 300 sq m. ■

GRAPH 4 Shopping mall vacancy rates by district, Q2/2016 vs Q1/2016



Source: Savills Research

TABLE 1 Key future projects, 2H/2016

Project	District	Size (sq m)	Expected Handover Date
K11	Zhujiang New Town	74,000	2H/2016
International Grand Park	Zhujiang New Town	92,000	2H/2016
Mingjie Plaza	Panyu	110,000	2H/2016

Source: Savills Research

OUTLOOK

Benefiting from strong consumer groups in emerging areas, projects in these areas will continue to record an increase in rents and occupancy rates. However, with the influx of new supply in prime areas in 2H/2016 it will be a challenge for shopping malls to retain satisfactory footfall figures.

During 2H/2016, the retail market is expected to see a number of prime projects launched. However, due to the current economic slowdown in China and the explosion of online shopping, city-wide first-floor rents are expected to remain down, while vacancy rates are expected to increase.

The retail sales market is expected to remain active, with a few quality tenants continuing their expansion strategy. Landlords are continuing to adjust their tenant mix and introducing more experiential shopping experiences to meet consumer needs.

Please contact us for further information

Research



James Macdonald
 Director, China
 +8621 6391 6688
 james.macdonald@savills.com.cn

Agency



Sam He
 Senior Manager
 +8620 3892 7350
 sam.he@savills.com.cn



Woody Lam
 Managing Director
 +8620 3892 7108
 woody.lam@savills.com.cn

Project & Development Consultancy



Lucy Lui
 Director
 +8620 3892 7130
 lucy.lui@savills.com.cn

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