

# Briefing Retail sector

October 2016



Image: Teemall, Tianhe Bei

## SUMMARY

One project was handed over in Q3/2016, adding 20,000 sq m of new supply to the prime retail market.

- In the first eight months of 2016, city-wide retail sales reached RMB556.0 billion, representing a year-to-date (YTD) year-on-year (YoY) real growth of 8.5%.
- One new project opened in Q3/2016, adding 20,000 sq m of new supply to the retail market and pushing up total stock to 4.45 million sq m.
- Overall first-floor prime shopping mall rents increased 0.1% quarter-on-quarter (QoQ) to an average of RMB649.2 per sq m per month.
- City-wide vacancy rates saw a decrease of 0.5 percentage points (pts) QoQ to 3.9%.

“Due to the large number of projects expected to be handed over in 2H/2016, the city may face difficulties in attracting suitable tenants. This could see city-wide rents remain under pressure.” Sam He, Savills Research

### Market overview

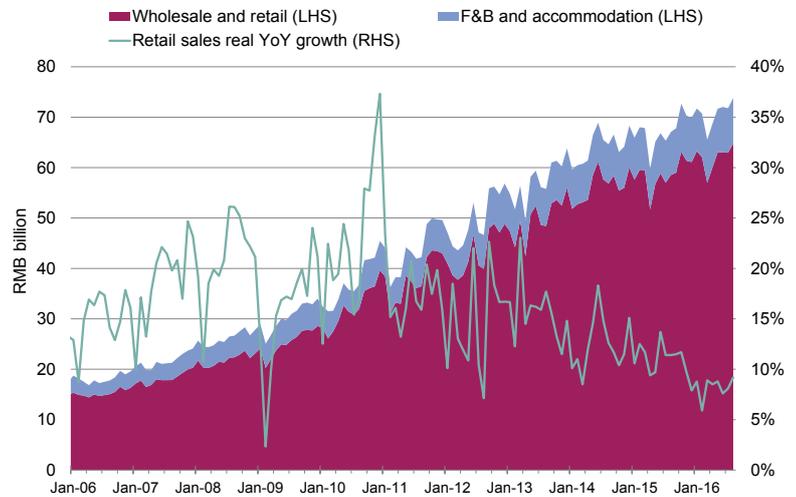
Retail sales recorded a YTD, YoY real growth of 8.5% in the first eight months of 2016, 0.1 of a ppt higher than Q2/2016, totalling RMB556.0 billion. In terms of retail sales growth rate, the city remained in first place out of other first-tier cities in China, and was 0.5 of a ppt higher than Shenzhen.

Wholesale and retail sales increased 0.1 of a ppt this quarter, while F&B and accommodation decreased 0.7 of a ppt.

### Supply

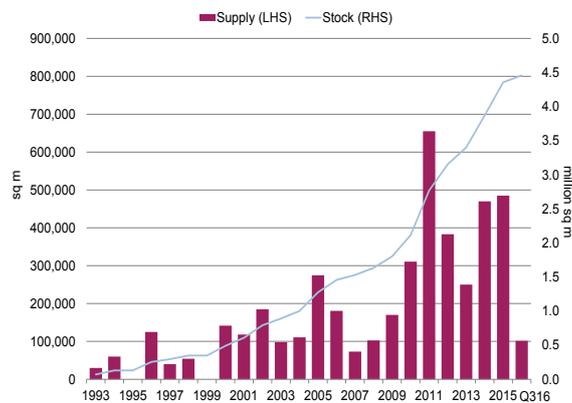
One new project was handed over this quarter, providing 20,000 sq m of new supply to the market and

GRAPH 1 Retail sales, Jan 2006–Aug 2016



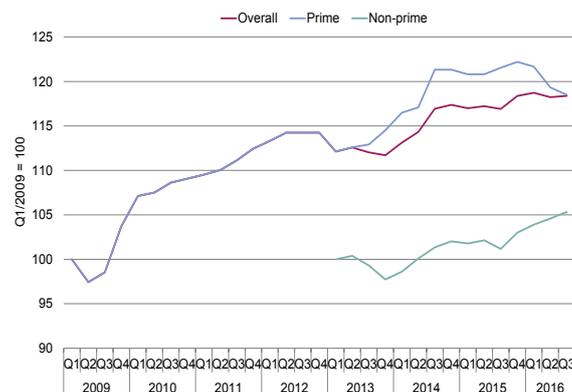
Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 Shopping mall supply and stock, 1993–Q3/2016



Source: Savills Research

GRAPH 3 Shopping mall first-floor rental indices, 2009–Q3/2016



Source: Savills Research

pushing retail stock up to 4.45 million sq m. Two new projects are expected to launch next quarter, adding approximately 130,000 sq m of new supply.

A Mall, located in the Yuexiu district, opened this quarter. It has seven storeys above ground and two below. Benefitting from the mature retail atmosphere of Beijing Road, the project aims to cater predominantly to mid-end consumers. A Mall has a high lifestyle store proportion, and the rest of the tenant mix consists of different sectors including F&B (Tsui Wah Restaurant), cinema (FFF Cinema) and traditional retail (H&M).

### Rents

Overall first-floor rents in prime shopping malls remained stable, up 0.1% QoQ to an average of RMB649.2 per sq m per month. First-floor rents decreased 0.7% QoQ in prime areas, while non-prime areas benefitting from the construction of supporting infrastructure and an improved living environment in non-prime areas, saw rents continue to grow steadily and increase 0.7% QoQ.

Faced with a tough retail market, landlords are concentrating on hosting innovative activities and events that focus on enriching

consumers' shopping experience, as well as providing a diverse selection of brands in an attempt to attract a higher footfall. In Q3/2016, the city's proportion of lifestyle stores made up 35.6%, up 0.2 of a ppt QoQ.

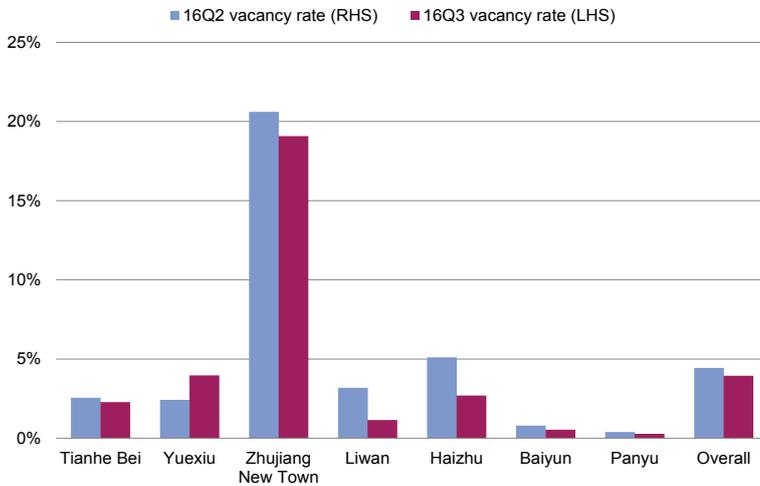
City-wide vacancy rates decreased 0.5 of a ppt QoQ to 3.9%. Due to numerous tenant adjustments taking place in a number of projects this quarter, most projects experienced improved occupancy rates and tenants were made up of a comprehensive list of brands. The Yuexiu district saw an obvious increase in vacancy rates as a result of the new project handed over still being in its teething phase.

### Retailer information

The retail market continued to see experiential stores and F&B brands expanding, with the following brands introduced this quarter:

- Tutuanna opened its first store in the city in Teemall, with an area of around 80 sq m.
- Line Friends launched its first store in Guangzhou in Grandview Mall, with a total area of more than 1,000 sq m.
- Electronic car brand Tesla opened its fourth store in the city in La Perle Square, with an area of approximately 170 sq m. ■

GRAPH 4 Shopping mall vacancy rates by district, Q3/2016 vs Q2/2016



Source: Savills Research

TABLE 1 Key future projects, Q4/2016

Project	District	Size (sq m)	Expected Handover Date
International Grand Park	Zhujiang New Town	92,000	Q4/2016
Wan sheng Plaza	Pazhou	47,000	Q4/2016

Source: Savills Research

## OUTLOOK

Pazhou will receive one new prime shopping mall next quarter, assisting in upgrading the retail market in the up-and-coming business area. Zhujiang New Town is also expected to welcome a new prime shopping mall, which will help introduce a variety of new brands to the retail market.

In Q4/2016, the city's retail market is expected to see two prime projects launched, located in Pazhou and Zhujiang New Town, with a total of 130,000 sq m of new supply.

The new supply brings with it additional challenges, but can also be viewed as an opportunity to uplift the retail market. The city's retail market rents are expected to remain under pressure, while vacancy rates are expected to increase slightly. In order to stay relevant, the traditional retail market needs landlords to continue to diversify their tenant portfolio by introducing more experiential shopping brands for consumers.

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