

Briefing Retail sector

October 2017



Image: Baiyun Hui Square, Baiyun district

SUMMARY

Lifestyle and experiential retailers continue to establish and expand in Guangzhou. The vast majority of new retail supply will be launched in Q4/2017.

- City-wide retail sales increased to RMB611.6 billion in the first eight months of 2017, representing year-on-year (YoY) growth of 8.6%, 0.1 percentage point (ppt) higher than previous year.

- One project entered the prime retail market in Q3/2017, with approximately 100,000 sq m. Total stock reached 4.70 million sq m.

- City-wide vacancy rates dropped 0.2 ppt, quarter-on-quarter (QoQ) to 5.5% in Q3/2017, but rose 1.5 pts YoY.

- Discretionary service segments, such as health and wellness centres, and speciality food & beverage (F&B) stores, are performing relatively well. These stores gain appeal from online reviews, creative marketing, and word of mouth.

- Tenant portfolios in non-prime areas kept adjusting to service market trends, introducing more children's brands, education centres, playgrounds, and lifestyle stores (such as VR games, collection stores and relatively smaller specialty F&Bs).

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“Through the first three quarters of 2017, total retail space remained relatively flat. The majority of new supply will be launched in emerging and suburban areas in the fourth quarter. The new supply will be mid-to-large scale and offer several retail development opportunities across the city, but will also put some pressure on the city-wide occupancy rate.” Robert Ritacca, Savills Research

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➔ **Market overview**

Aggregate retail sales totalled RMB611.6 billion in the first eight months of 2017, representing 8.6% growth, 0.1 ppt higher than the previous year.

By sector, online sales of consumer goods increased 16.6% YoY, sales of telecom equipment and accessories increased 18.4% YoY, and medical devices and equipment rose 15.8% YoY. Hotels and F&B also grew, but by a much lower rate than the aforementioned sectors, rising 6.3% YoY.

Supply

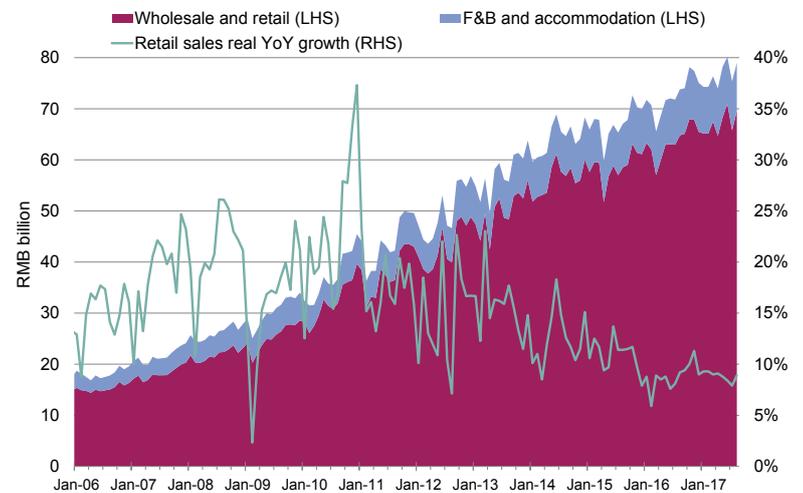
Supply was relatively light in Q3/2017. One shopping mall, Baiyun Hui, located in an emerging area of Baiyun district called 'Baiyun New Town', opened with total gross floor area (GFA) of 100,000 sq m. Mall management's core strategy is to diversify its tenant mix with various lifestyle stores and emphasize a diversified "service" experience, which means it will provide more education centres, children's playgrounds and activities, fitness/wellness centres, and specialty F&B stores. Baiyun Hui had a very successful launch, filling approximately 95% of space. The high initial occupancy rate is attributable to a lower supply of malls in the Baiyun New Town area.

Guangzhou prime retail stock reached 4.7 million sq m through Q3/2017. Tianhe Road and Yuexiu district are the two main areas of prime retail stock. Tianhe Road maintains approximately 27% GFA prime market share, while the Yuexiu district maintains 16% GFA prime market share. In the next couple of years (2017-2019), the majority of new supply will launch in emerging areas, such as: Panyu (32%), Baiyun (23%) and Yuexiu (15%). By the end of 2017, prime retail supply is expected to increase 221% YoY, with 89% of all projects GFA to exceed 60,000 sq m, continuing the trend of building mid-to-large scale shopping malls with a focus on satisfying local consumers' tastes and improving modern services.

Vacancy Rates

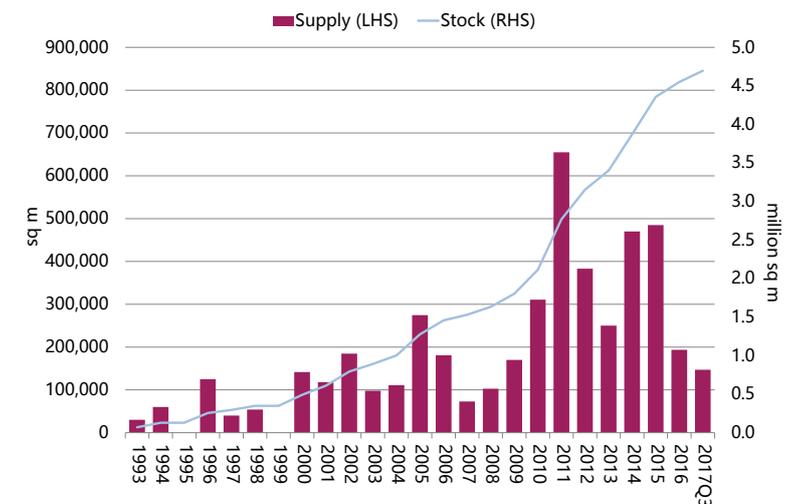
City-wide vacancy rates decreased 0.2 ppt QoQ to 5.5% in Q3/2017. The vacancy rate in non-prime areas decreased 0.6 ppt to 6.2%, while the

GRAPH 1 **Retail Sales, January 2006-August 2017**



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 **Shopping Mall Supply and Stock, 1993-Q3/2017**



Source: Savills Research

vacancy rate in prime areas slightly rose 0.3 ppt to 4.2%. Prime and non-prime areas are working different strategies to improve occupancy rates and diversify the overall mall experience. Prime retail areas receive obvious locational benefits and modern infrastructure advantages. These malls are more inclined to welcome unique formats and diverse fashion tenants to attract consumers from wider catchments, as opposed to shopping malls in emerging areas.

Malls in emerging retail areas are improving service standards for consumers in their respective local communities. Greater service

is offered by more attractions and diverse tenant mix, such as improving lifestyle services for families. If families are better serviced it will increase footfall and offer heightened interest in the shopping experience. Introducing more children-themed workshops such as playgrounds or atriums, and education/language centres will captivate local families. The introduction of relatively smaller specialty F&B stores will also continue to heighten consumer engagement levels.

The city-wide lifestyle store proportion stood at 37%, down 0.9

ppt QoQ and 1.4 pts YoY. Haizhu, Baiyun and Panyu saw decreases in lifestyle stores proportions, whereas other areas saw increases. Generally, lifestyle stores will become more and more attractive as consumers look to purchase diversified services that can enhance their daily lives.

Rents

City-wide retail first-floor rents increased by 0.1% QoQ in Q3/2017 to RMB702.5 per sq m per month. Prime areas first-floor rent increased 1.2% QoQ to RMB1100.9 per sq m per month, up 2.5% YoY. Tianhe Road was the predominant catalyst for increasing rents in

prime locations, as first-floor rents increased 2.8% QoQ and 8.6% YoY to RMB1178.8 per sq m per month. However, Yuexiu District first-floor rents decreased 1.4% QoQ to RMB893.3, down 8.8% YoY. The disparity reflects the retail strength of Tianhe Road and the moderate tenant adjustments occurring in the Yuexiu District.

Non-prime area first-floor rents marginally decreased, down 0.7% QoQ to RMB 364.6 per sq m per month, but up 0.9% YoY. Overall, first-floor rents in emerging areas are expected to moderately rise in the short-to-middle term. Current

population density in emerging areas, and steadily increasing urbanisation rates will provide a solid foundation for footfall growth. Additionally, facilities and equipment improvement in emerging areas' shopping malls will create a positive atmosphere in the mall and improve future performances in non-prime areas.

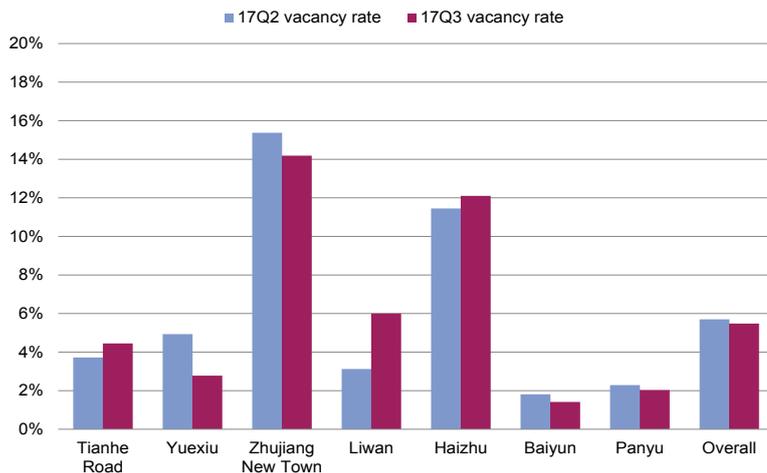
Retailer information

The leasing market was active in the third quarter. Fashion brands and F&B tenants remain market share leaders, both occupying 21% of the market. However, other categories are also becoming increasingly attractive; digital & electronics, leisure & entertainment, sports & outdoor equipment, and home & lifestyle brands are all gaining popularity.

The retail leasing market continues to expand and diversify. The following brands either recently launched or expanded their footprint in Q3/2017:

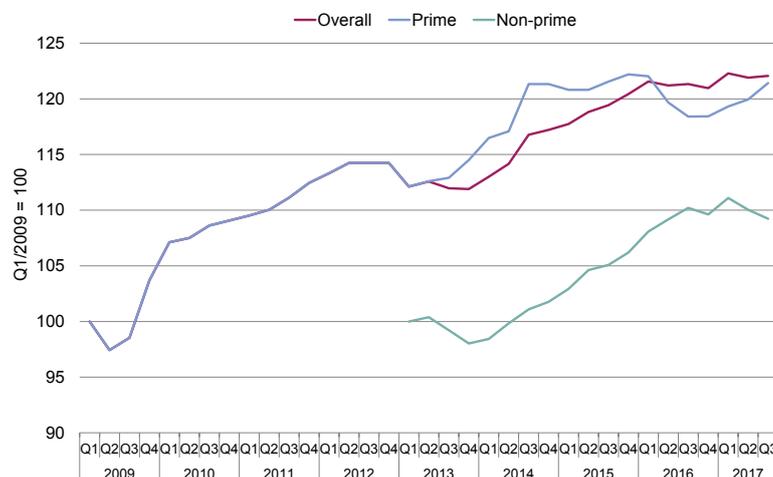
- Online lifestyle retailer, Dcamp, opened its first store in Guangzhou's Rock Centre, with GFA of 35.5 sq m.
- Hong Kong fashion brand, Salad, launched an additional store in Rock Centre, covering 221 sq m GFA.
- Internet-celebrity (网红) beverage brand, Naixue's Tea, opened its second store in Grandview mall, after launching its first store at OneLink Walk in Q2/2017.
- HEKCAA continued to expand in Guangzhou, opening one more store in IGC, covering 150 sq m.
- Sports brands Li-Ning and Nike opened new stores in China Square, with 250 sq m and 140 sq m respectively.
- Luxury Italian F&B, COVA, will open its first store in Laperle Square this year. Additionally, Laperle Square will also be hosting the debut of Singaporean F&B brand "Mr. Huo Ceramics", slated to launch in Q4/2017.

GRAPH 3 Shopping Mall Vacancy Rates by District, Q2/2017 vs Q3/2017



Source: Savills Research

GRAPH 4 Shopping Mall First-Floor Rental Indices, 2009–Q3/2017



Source: Savills Research

Market outlook

The large majority of 2017 Guangzhou retail supply (approximately 76% of new prime GFA) will be launched in Q4/2017. New shopping malls will open in Haizhu, Panyu and Baiyun districts,

TABLE 1
Key future projects, 2017

Project	District	Size (sq m)	Expected Handover Date
M Park	Tianhe	62,000	2017
Six Elements Experiential Centre	Pazhou	80,000	2017
K11	Zhujiang New Town	74,000	2017
Happy Park	Yuexiu	19,000	2017
Anhua Hui	Baiyun	180,000	2017
Asian Games Town Project	Panyu	60,000	2017

Source: Savills Research

registering approximately 475,000 sq m of GFA.

Prime areas have become increasingly saturated, with decreasing amounts of usable land. The vast majority of new supply will concentrate in emerging areas and cater to local consumers' tastes. Regarding tenant portfolios, newer malls will be more focused on lifestyle consumption, and attract potential footfall from aforementioned discretionary service formats and other unique brands.

Influx near-term supply should put pressure on the leasing market. As a result, city-wide vacancy rates may increase. However, as the broader market remains stable, city-wide market rents should also remain stable. ■

Please contact us for further information

Research



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



Robert Ritacca
Senior Manager
+86755 8828 5241
robert.ritacca@savills.com.cn

Agency



Steven Zhang
Associate Director
+8620 3892 8653
steven.zhang@savills.com.cn

Project & Development Consultancy



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

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