

Briefing Retail sector

January 2018

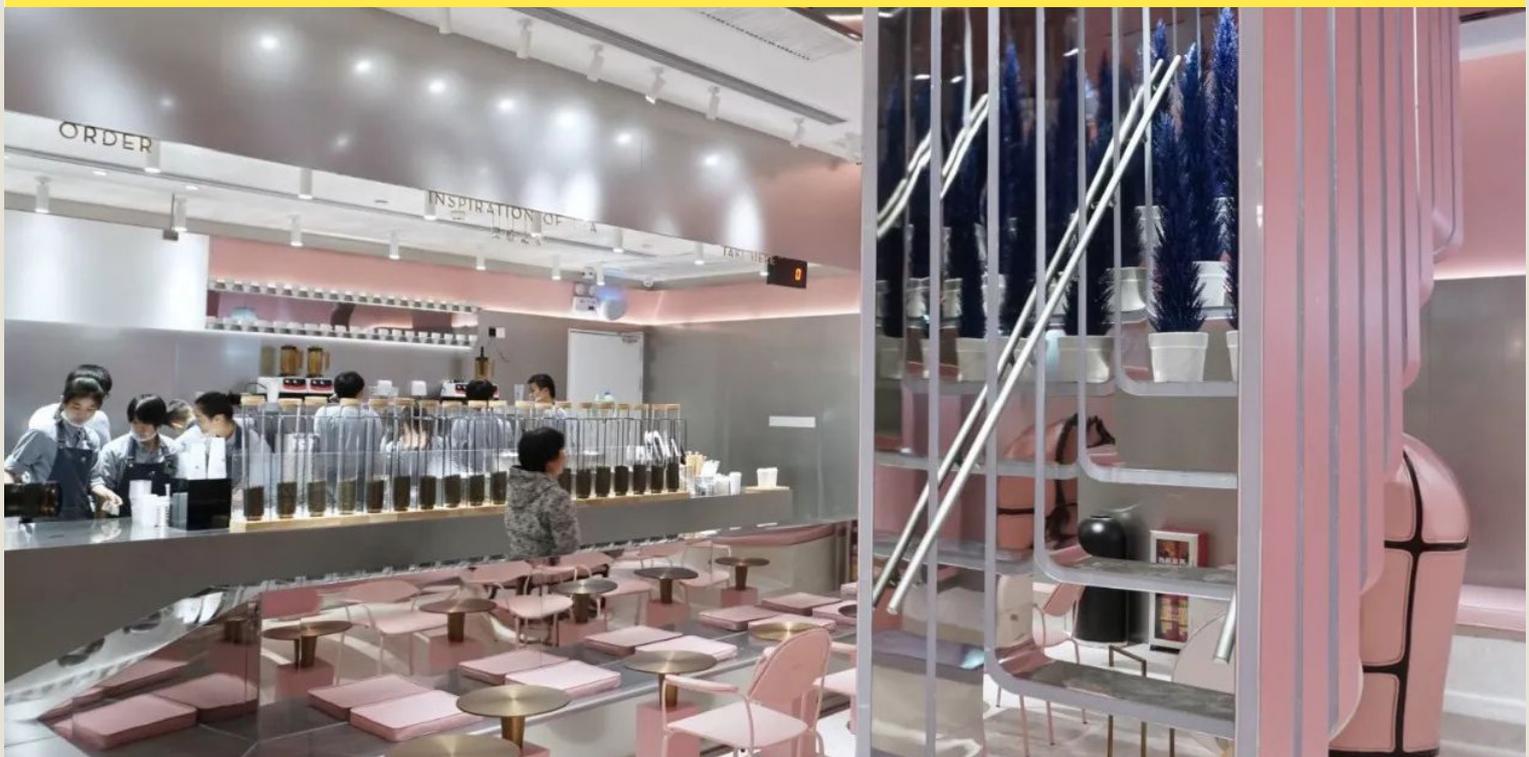


Image: Parc Central, Tianhe Road

SUMMARY

Three shopping malls opened in Q4/2017 pushing up city-wide vacancy rates.

■ City-wide retail sales increased to RMB854.8 billion in the first 11 months of 2017, representing a year-on-year (YoY) increase of 8.2%. The growth rate was 0.8 of a percentage point (ppt) lower than the previous year.

■ Three projects entered the prime retail market in Q4/2017, with total gross floor area (GFA) of approximately 232,000 sq m. Total stock reached 5.36 million sq m.

■ City-wide first-floor rents increased 1.3% quarter-on-quarter (QoQ) to RMB714.2 per sq m per month, up 6.4% YoY. First-floor rents in prime areas increased 1.9% QoQ, while

first-floor rents in emerging retail areas halted a two-quarter decline.

■ City-wide vacancy rates increased 1.9 ppts QoQ and 3.9 ppts YoY to 7.4%. Haizhu saw the largest vacancy rate increase, predominately due to the soft opening of its new mall, the Six Element Experiences Centre.

■ The number of city-wide lifestyle stores¹ decreased by 2.7 ppts YoY in 2017. The lifestyle store market share decline was primarily driven by a rise in both fashion stores and accessories stores. These stores increased their city-wide market share by 7.9% and 1.7% YoY respectively.

¹ Including but not limited to: leisure & entertainment, playgrounds, cinemas and food & beverage

“Steady retail consumption and a healthy retail atmosphere positively influenced the investment market, as three shopping malls transacted in 2017. Guangzhou’s shopping mall supply will continue to increase in 2018, with a few large-scale shopping malls opening in emerging districts. The increase in supply should help speed up development, but also bring fierce competition to the retail market.”

Robert Ritacca, Savills Research

➔ **Market overview**

Aggregate retail sales totalled RMB854.8 billion in the first eleven months of 2017, representing 8.2% growth, 0.8 of a ppt lower than the previous year.

By sector, wholesale and retail increased 8.5% YoY, while food and beverage (F&B) and accommodation increased 6.0% YoY.

The Guangzhou prime retail market has been under constant transformation in 2017, from single-function, traditional shopping malls to multi-function shopping parks. The experience has been further enhanced by investing in off-line shopping experience, family entertainment and unique event decorations.

Supply

Total supply increased 71.9% YoY in 2017, pushing up total prime retail stock to 5.36 million sq m. Tianhe Road (21%) and Yuexiu (14%) maintained the highest city-wide market share. Emerging markets are experiencing rapid development, and currently claim the following market share: Baiyun (14%), Haizhu (12%), Panyu (10%) and Zhujiang New Town (10%).

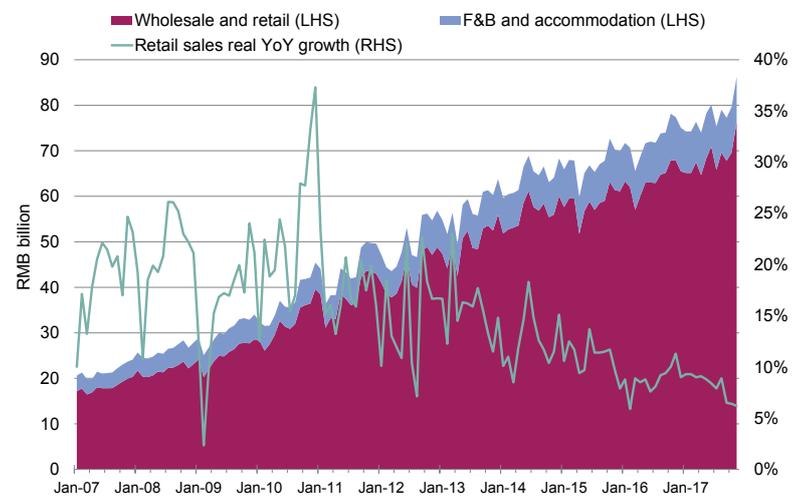
Three prime shopping malls launched in Q4/2017, adding 232,000 sq m of new supply.

- The 62,000 sq m M+ park is located in Tianhe district. The mall is designed to appeal to teenage and young adult consumers. Some of the anchor stores include Uniqlo, Yonghui Super Market, Zhonging Cinema and M+BOOKS.

- Asian Game Town Mall is the first prime shopping mall located in the Asian Game Town area, in Panyu. It occupies 60,000 sq m GFA, predominately catering family's consumption due to large resident's community nearby.

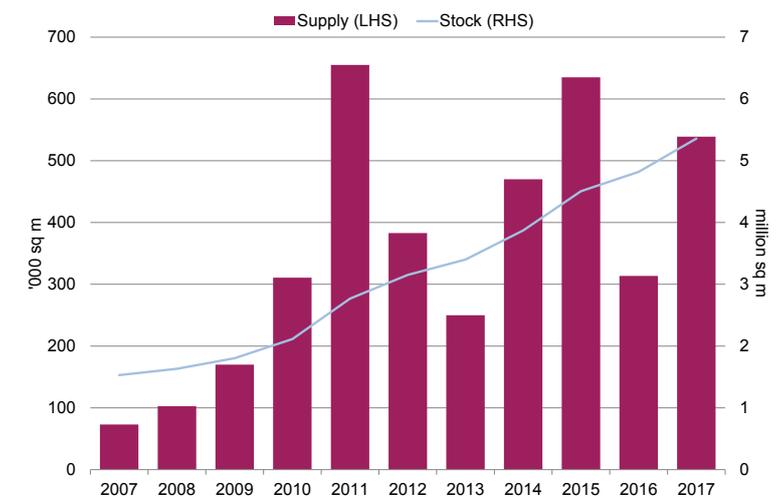
- One new shopping mall, Six Elements Experiential Centre, with 110,000 sq m GFA opened in the Pazhou area. The mall's operator is leveraging on the Chinese consumer trend in which affluent families are increasing their spend on childrens' products. Despite a relatively high

GRAPH 1 **Retail Sales, January 2007-November 2017**



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 **Shopping Mall Supply and Stock, 2007-2017**



Source: Savills Research

vacancy rate, already more than 28% of the mall occupants are child-related retailers and service providers. Anchor tenants include Little Q children's playground, EMA international education, Winnie English, Dualshine-art and Balabala. The proportion of child-related tenants will edge higher once all other tenants open their stores.

Vacancy Rates

City-wide vacancy rates increased 1.9 ppts QoQ and 3.9 ppts YoY to 7.4% in Q4/2017. The increase was predominantly driven by the grand opening of Six Elements Experiential

Centre in Haizhu district. Vacancy rates stabilised in other retail areas. Supply is expected to increase by 95.8% YoY in 2018. Mall operators will be under more pressure to maintain mall occupancy levels, and should deploy various strategies to not only attract tenants but also ensure consistent footfall.

F&B and fashion tenants held the largest market share of all tenants in Guangzhou, with 22% and 21% of the market respectively.

In 2017, the city-wide lifestyle store proportion gradually declined to

32.4%, down 2.7% YoY. The retail market was driven by an increase in both fashion and accessories stores, increasing city-wide market share by 7.9% and 1.7% YoY respectively. Additionally, leisure and entertainment and F&B also rose modestly, increasing city-wide market share by 3.6% and 2.0% respectively.

Tianhe Road, Liwan and Yuexiu witnessed the largest lifestyle proportion increase. However a few shopping malls in emerging areas saw their lifestyle proportions decrease after a two-to-three year

incubation period, with landlords of some better performing shopping malls looking to reposition the mall with better quality tenants to achieve higher revenue.

Rents

City-wide retail first-floor rents increased by 1.3% QoQ and 6.4% YoY in Q4/2017 to RMB714.25 per sq m per month. Prime areas first-floor rent increased 1.9% QoQ and 6.0% YoY to RMB1,123.7 per sq m per month. After two quarters of sequential declines, non-prime areas first-floor rents rebounded in Q4/2017, reaching RMB368.5 per

sq m per month, up 0.8% QoQ and 0.8% YoY.

Tianhe Road retail area continued to rank as Guangzhou's highest priced first-floor rental area, up approximately 1.5% QoQ and 9.9% YoY. Yuexiu also saw positive rental performances in Q4, with prices increasing 2.6% QoQ, but were still down 5.4% YoY. As a renowned mature retail area, Yuexiu is experiencing fiercer competition from not only Tianhe Road, but also nearby emerging retail areas such as Zhujiang New Town.

Retailer information

Fashion and leisure and entertainment brands had the largest increase in market share in 2017. Due to positive market sentiment, three shopping malls (Metropolitan Centre, Happy Valley and Rock Centre) were acquired in 2017. Additionally, a few shopping malls began to re-position and upgrade in an attempt to renew tenants, maintain satisfactory footfall, and increase rental income.

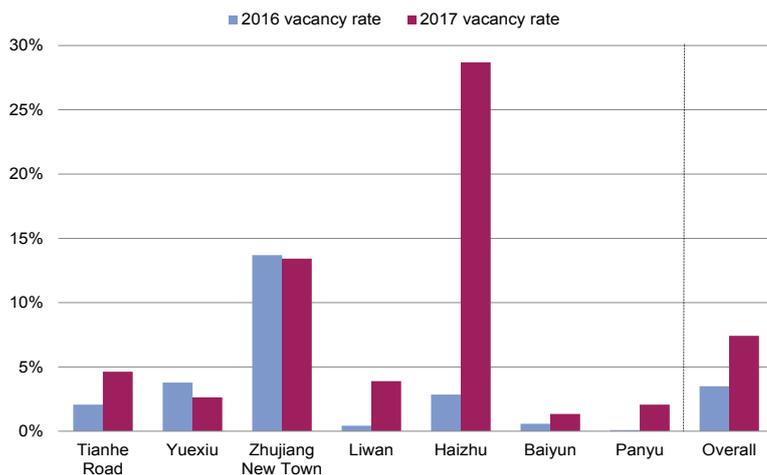
The retail leasing market continues to expand and diversify. The following brands either recently launched or expanded their footprint in Q4/2017:

- Canada sports brand, Lululemon, launched the first store in Southern China, located in TaiKoo Hui, with 121 sq m
- America fashion brand, Polo Ralph Lauren, launched the first store in Guangzhou La Perle Square, with an area of more than 100 sq m.
- UA Cinema opened in Po Park Plaza, with an area around 2000 sq m.
- Guangzhou first self-service bookstore, IFANX Bookshop, opened in Sky Gallery of CITIC Plaza.

Market outlook

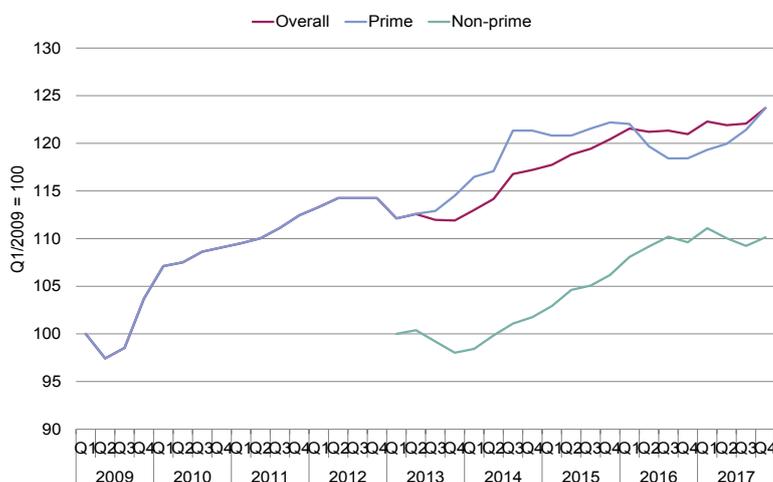
More than one million sq m of new prime retail supply will be handed over in 2018, with the majority of new shopping malls set to open in emerging areas — Baiyun and Panyu. The majority of new supply will be located in emerging areas, which will bring more pressure to the market as they generally experience longer

GRAPH 3 Shopping Mall Vacancy Rates by District, 2016 vs 2017



Source: Savills Research

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



Source: Savills Research

TABLE 1
Key future projects, 2018

Project	District	Size (sq m)	Expected Handover Date
New World Project	Baiyun	70,000	2018
Tianhe Vanke Project	Tianhe	70,000	2018
K11	Zhujiang New Town	74,000	2018
Teemall Panyu Project	Panyu	97,500	2018
Anhua Hui	Baiyun	180,000	2018
Aeon Mall Jingshazhou	Baiyun	130,000	2018

Source: Savills Research

and more difficult incubation periods. As a result, emerging retail areas' occupancy rates and market rents may both incur downside pressure. In 2018, maintaining a favourable incubation period will be a key for emerging shopping malls to achieve profits.

The influx supply will bring fierce competition to the Guangzhou retail market in 2018. Guangzhou's prime retail area, mainly Tianhe Road, should maintain its consistency, which will further lend stability to the city-wide retail market performance. However, emerging retail areas may be more susceptible to new supply and should see decreases in both occupancy rates and market rents. ■

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