

# Briefing Retail sector

May 2018



Image: K11, Zhujiang New Town

## SUMMARY

Two shopping malls were launched in Q1/2018, enlarging the city’s stock pool and pushing up vacancy rates.

- City-wide retail sales increased to RMB147.4 billion in the first two months of 2018, an increase of 8.2% year-on-year (YoY).
- Two projects, with a total GFA of approximately 254,000 sq m, entered the prime retail market in Q1/2018. Total stock reached 5.61 million sq m.
- City-wide first-floor rents increased by 0.8% quarter-on-quarter (QoQ) to RMB712 per sq m per month, up 1.9% YoY. First-floor rents in mature retail areas increased 3.9% YoY, while first-floor rents in emerging retail areas decreased 0.1% YoY.
- City-wide vacancy rates decreased 1.5 percentage points (ppts) QoQ to 5.9%, but were still up 1.5 ppts YoY. Haizhu saw the largest decrease, down 14 ppts QoQ, predominately due to the improvement in take-up levels at the Six Element Experiences Centre, which soft-opened in Q4/2017.

“Re-positioning of malls to include more F&B outlets and services, with the incorporation of an experiential marketing strategy, continues to be a trend in Guangzhou. Multi-functional malls, versus traditional, pure goods-selling malls, are transforming the city’s retail landscape.”

Woody Lam, Savills Southern China

➔ **Market overview**

Total retail sales in Guangzhou for the first two months of 2018 was RMB147.38 billion. Total growth was 8.2% YoY, 1.1 ppts lower versus the same period in 2017, but higher than Beijing and Shanghai.

Total sales in retail, catering and hotels was largely affected by Chinese New Year falling in the quarter. By sector, growth in wholesale and retail increased 8.8% YoY, while accommodation and F&B increased 4.1% YoY.

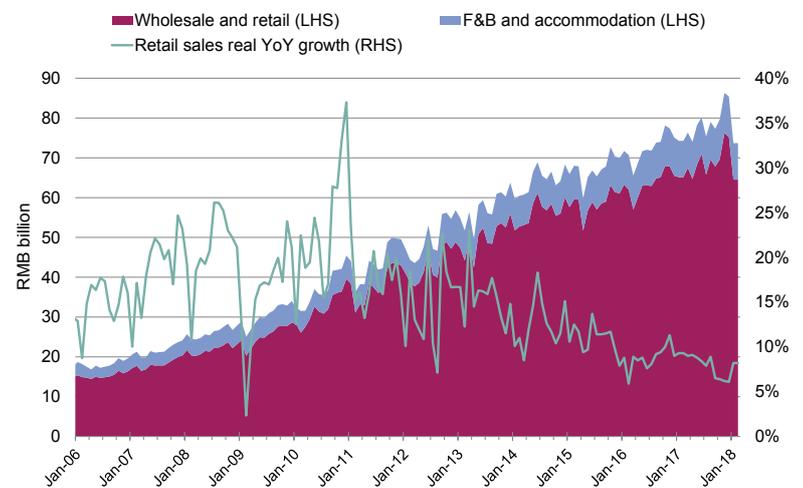
**Supply**

Two prime shopping malls were launched in Q1/2018, adding 254,000 sq m of new supply and increasing prime retail stock to 5.6 million sq m.

- The 74,000 sq m K11, located in Zhujiang New Town, is the first art-themed mall in Guangzhou. The mall blends elements of art, humans and nature to offer a museum-retail experience, and successfully pulled in younger crowds during its launch campaign. The mall hosts a range of stores, such as Emporio Armani, Moschino and Sergio Rossi as well as Yanjiyou bookstore, CGV cinema and several restaurants including Mercato and Mango Tree.
- The 180,000 sq m Anhua Hui is located in Baiyun New Town. Targeting the large amount of families living nearby, the mall offers a variety of family-oriented brands including Lotus supermarket, Decathlon, Danny Bear Children’s playground and Toto.

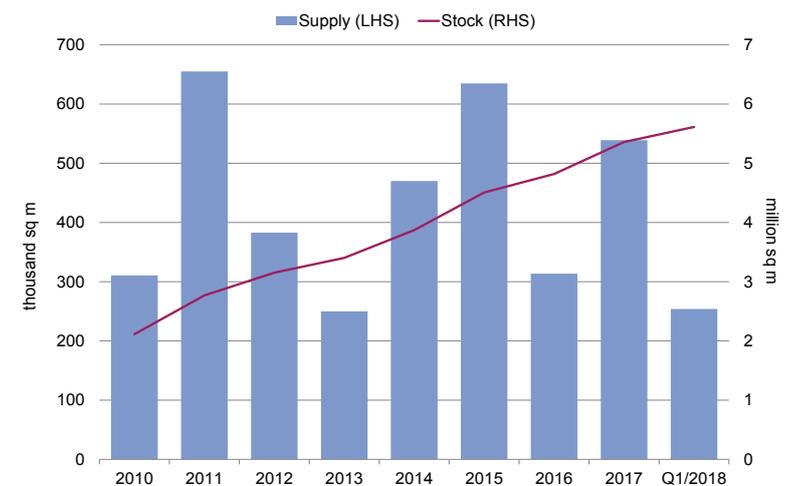
Tianhe Road and Yuexiu are still the prime retail areas of Guangzhou. Tianhe Road now holds approximately 21% of the market share in terms of GFA while the Yuexiu area supplies around 13% of total prime retail GFA. By the end of 2018, city-wide prime retail supply is expected to increase 65% YoY, and 75% of the new projects will have GFA greater than 60,000 sq m. This continues the trend of building mid-to-large scale shopping malls with a focus on providing a bigger variety

GRAPH 1 **Retail Sales, Jan 2007- Feb 2018**



Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2010–Q1/2018**



Source: Savills Research

of services and stores to satisfy changing consumer demands.

New malls are increasingly launched in emerging areas; the market share of prime retail space in the Baiyun area has now surpassed Yuexiu. This trend will continue in the next few years with retailers focusing on the Baiyun and Panyu areas.

**Vacancy rates**

The city-wide vacancy rate decreased 1.5 ppts QoQ, albeit an increase of 1.5 ppts YoY, in Q1/2018. Overall, the changes in vacancy rates

were relatively stable and indicative of favourable situations in several areas.

The retail market saw a number of department stores close in 2017. As department stores generally take up large spaces in shopping malls, longer periods are required for the subsequent tenant-mix adjustment and store refitting. Thus, Guangzhou saw a higher vacancy rate YoY. Mall operators have been under great pressure to adapt their operations not only to fit the changing market but also to attract tenants. In a rapid

retail turnaround, lifestyle outlets have become more attractive than traditional retail stores.

The vacancy rate in Haizhu area decreased 14 ppts QoQ, mainly due to low pre-opening commitment rates and the incubation period needed for newly-launched malls.

The proportion of lifestyle stores city-wide has remained stable. However, lifestyle stores<sup>1</sup> in Haizhu saw the most significant growth across the city, up 6.9 ppt QoQ.

<sup>1</sup> Including but not limited to: leisure & entertainment, playgrounds, cinemas and F&B

Some operators have already begun re-positioning their malls and improving tenant-mix after the peak period of Chinese New Year. Among all lifestyle stores, F&B outlets boast the largest market share in both prime and non-prime areas. Overall, the market share of lifestyle stores - especially leisure and entertainment retailers - is still growing. Some malls already have a larger proportion of lifestyle stores as tenants versus general retail. These include Sky Gallery of CITIC Plaza, Mayflower Plaza, A Mall and Baiyun Hui.

## Rents

City-wide average first-floor rents increased by 0.8% QoQ and 1.9% YoY in Q1/2018 to RMB711.7 per sq m per month. Average first-floor rents in prime areas increased 0.2% QoQ and 3.9% YoY to RMB1,128 per sq m per month, while those in non-prime areas reached RMB368.5 per sq m per month, up 0.8% QoQ but down slightly by 0.1% YoY.

Tianhe Road continued to be ranked as Guangzhou's highest-priced first-floor rental area, with an increase of 0.2% QoQ and 6.5% YoY. Both Liwan and Haizhu enjoyed positive first-floor rental performance in Q1/2018, increasing 2.2% QoQ and 4.6% YoY and 0.46% YoY respectively. Average first-floor rents were RMB460 per sq m per month in the Liwan area and RMB480 in the Haizhu area.

## Retailer information

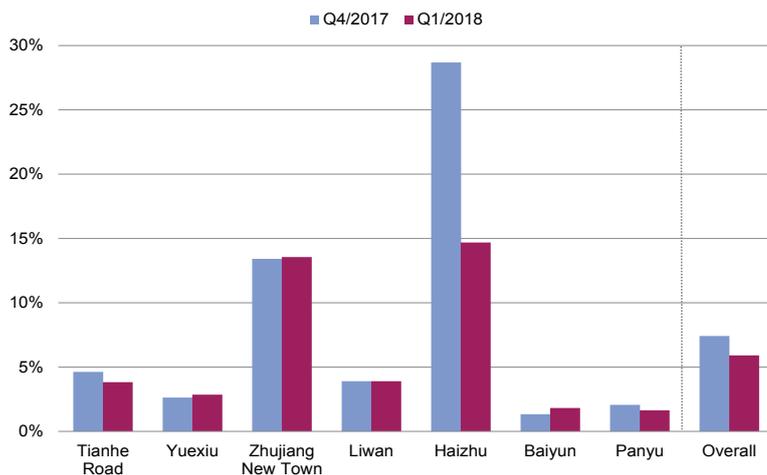
Brands marketed as an enrichment of consumer's lifestyle and experience continue to establish themselves in the city, further diversifying and enlarging Guangzhou's retail market. Below are some examples of stores launched in Q1/2018:

- More than 48% of stores opened in K11 were the brand's first store in the city. Examples of F&B brands are Van Gogh Senses, T.P.S and Caffe Pasucci; fashion brands include Krizia, United Nude and Sergio Rossi.
- Victoria Secret opened its first full-line, flagship store in Southern China in Taikoo Hui.
- Cova, an F&B brand under the LVMH Group, launched its first Guangzhou store in LA Perle.

## Market outlook

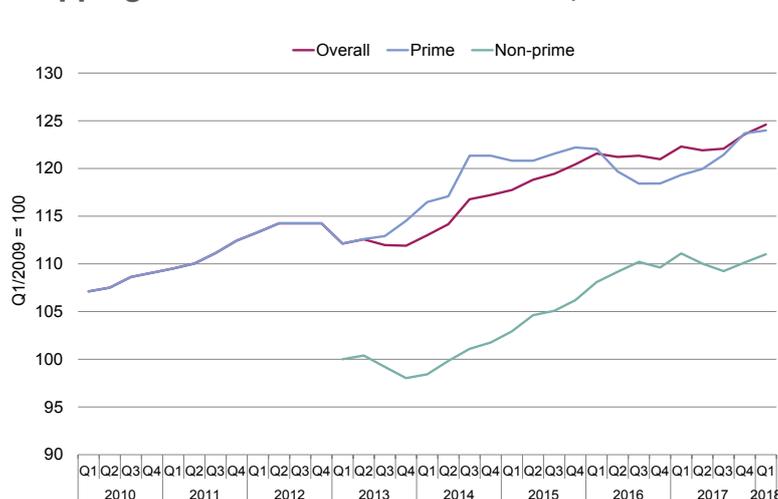
Guangzhou's retail market continued to grow steadily in Q1/2018. In the face of 'new retail', more retailers are moving from selling only goods to selling products and experiences. Mall operators are also improving their operations and amenities and devising marketing campaigns to increase foot traffic. In turn, these

GRAPH 3 **Shopping mall vacancy rates by areas, Q4/2017 vs Q1/2018**



Source: Savills Research

GRAPH 4 **Shopping mall first-floor rental indices, 2010–Q1/2018**



Source: Savills Research

TABLE 1  
**Key future projects, 2018**

Project	District	Size (sq m)	Expected handover date
Happy Park	Yuexiu	19,316	2018
Jinsha Hui	Baiyun	45,000	2018
New World Project	Baiyun	70,000	2018
Tianhe Vanke Project	Tianhe	70,000	2018
Teemall Panyu Project	Panyu	97,500	2018
Aeon Mall Jingshazhou	Baiyun	130,000	2018

Source: Savills Research

moves will attract internationally-recognised brands that want to establish themselves or expand their footprints in Guangzhou, thereby helping mall operators to stand out from intense competition and encourage more offline spending from consumers.

It is expected that the city-wide retail vacancy rate will increase slightly in the next quarter with the opening of a new mall. However, city-wide first-floor prime rents should remain stable. ■

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