

# Briefing Retail sector

August 2018

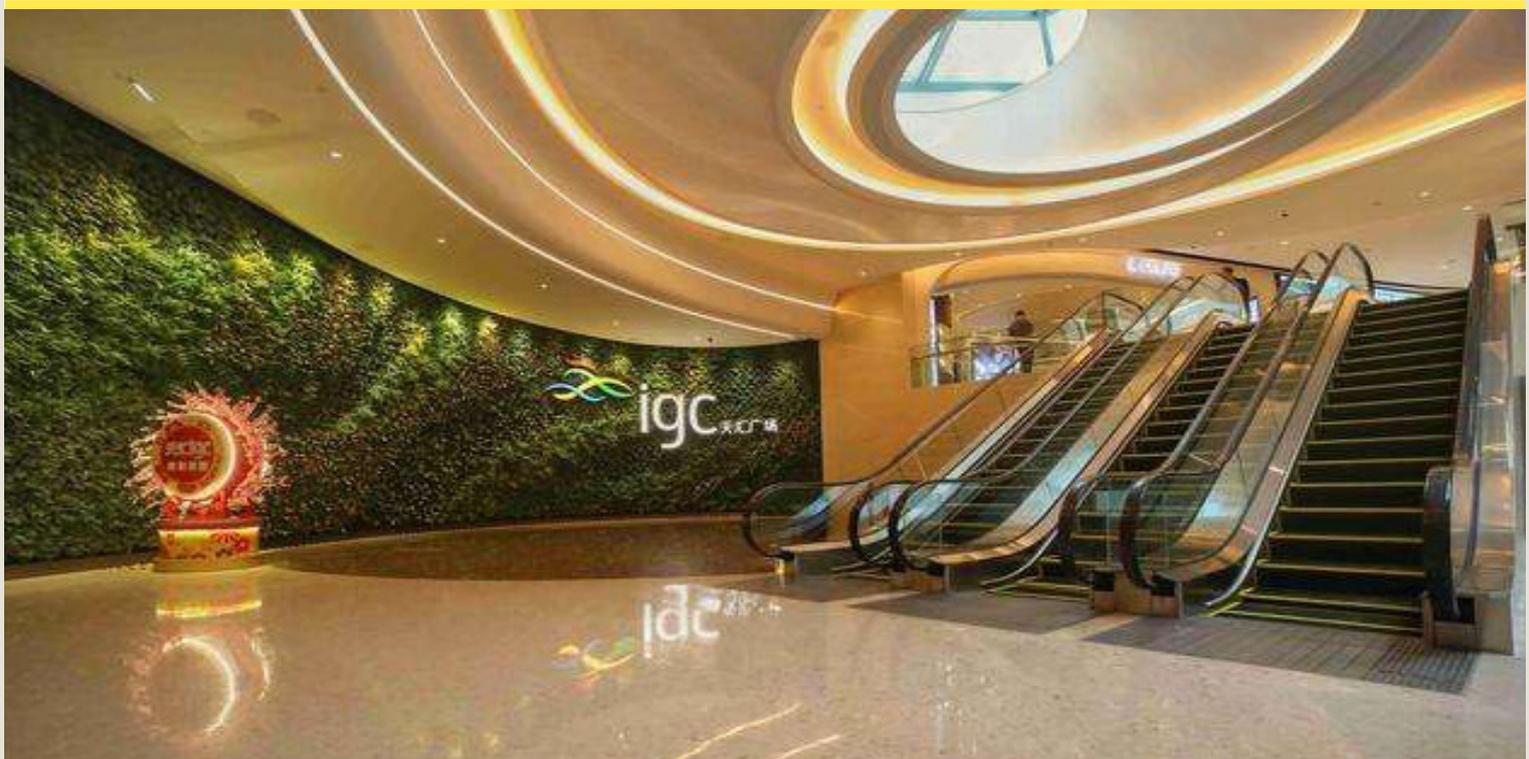


Image: igc in Zhujiang New Town

## SUMMARY

Guangzhou's prime retail market remains robust, reflecting relatively stable rents and occupancy rates in Q2/2018.

- City-wide retail sales reached RMB373 billion from January to May 2018, up 8.0% year-on-year (YoY).
- There was no new supply in Q2/2018 and the city-wide total stock remained at approximately 5.61 million sq m.
- City-wide vacancy rate decreased by 0.7 percentage point (ppt) quarter-on-quarter (QoQ) and 0.5 ppt YoY to 5.2%. The average vacancy rate in prime areas increased by 0.3 ppt QoQ to 3.9% whilst that of non-prime areas decreased by 1.3 ppts QoQ to 5.8%.
- City-wide first-floor average rents increased 1.4% QoQ and 3.7% YoY to RMB724.3 per sq m, per month. First-floor average rent increased in both prime and non-prime areas, up 1.6% and 1.3% QoQ, respectively.

“The Guangzhou retail property leasing market will become more competitive, especially in non-prime areas, where in recent years there has been a considerable increase in supply. Concurrently, the sector continues to attract capable domestic and overseas investors due to investment growth potential.” Carlby Xie, Savills Southern China

➔ **Economics**

The Guangzhou retail market continued to grow, with total retail sales increasing 8% YoY to RMB373 billion in the first five months of 2018. By sector, wholesale and retail sales increased by 8.4% YoY while accommodation and F&B increased by 4.9% YoY for the same period of time.

**Supply**

There was no new supply launched in Q2/2018 and the total stock of prime retail properties remained at 5.6 million sq m. The stock of prime retail areas totalled 1.9 million sq m while that of the non-prime retail areas was 3.7 million sq m at the end of 1H/2018.

The overall retail property market landscape in Guangzhou has developed rapidly over the past decade. Unlike other cities in China, decentralisation has yet to take place within the city. Since 2008 the number of major catchments has increased from four (Yuexiu, Liwan, Tianhe Road and Haizhu) to seven (Tianhe Road, Baiyun, Yuexiu, Haizhu, Zhujiang New Town, Liwan, Panyu et al) by the end of 1H/2018.

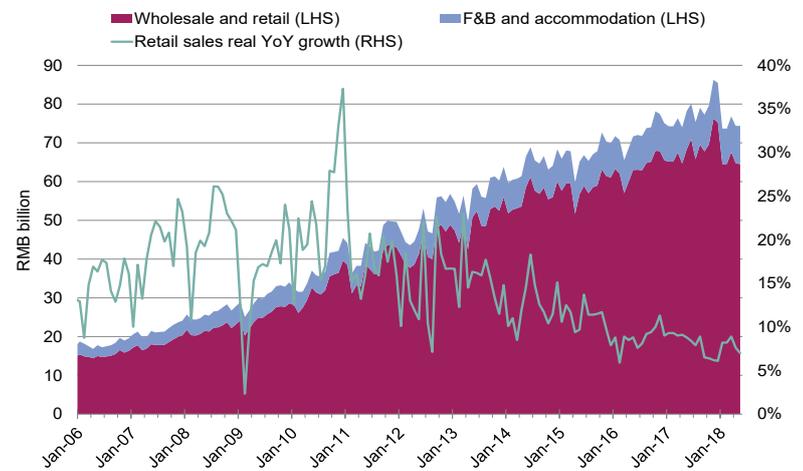
Meanwhile, the total stock of the prime retail property market expanded to 5.61 sq m in 1H/2018, up 243.7% from 2008. Tianhe Road was the largest retail catchment, followed by Baiyun and Yuexiu in 1H/2018.

Six prime shopping centres with a total GFA of approximately 500,000 sq m are expected to open in 2H/2018, pushing the stock of the prime retail property market up to 6.1 million sq m by the end of 2018. Whilst the majority of this new supply are located in non-prime areas, 66% are concentrated in Baiyun.

**Vacancy rates**

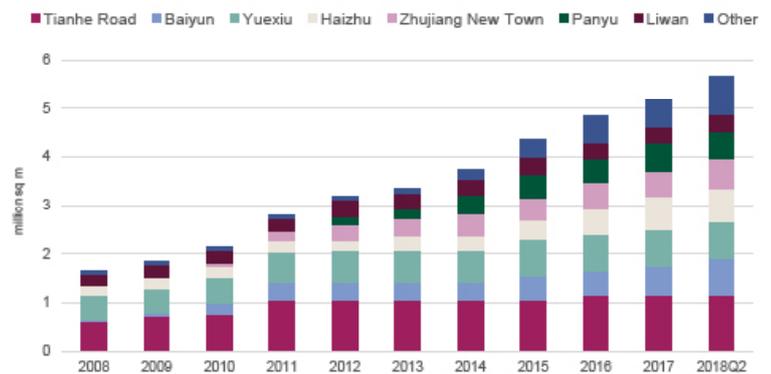
The city-wide vacancy rate decreased by 0.7 ppt QoQ and 0.5 ppt YoY to 5.2% in Q2/2018. The vacancy rate in prime retail areas

GRAPH 1 **Retail sales, January 2006 - May 2018**



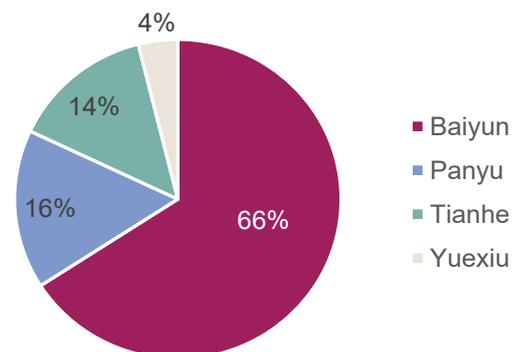
Source: Guangzhou Statistics Bureau, Savills Research

GRAPH 2 **Stock and its breakdown by catchment, 2008 – Q2/2018**



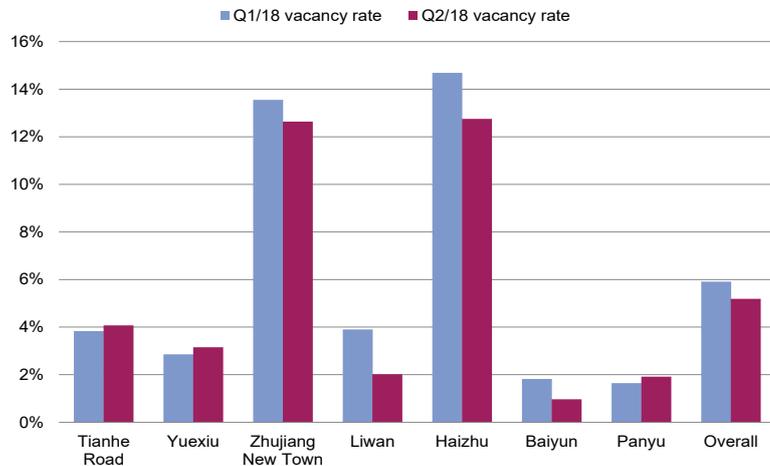
Source: Savills Research

GRAPH 3 **New Supply Breakdown by GFA, 2H/2018**



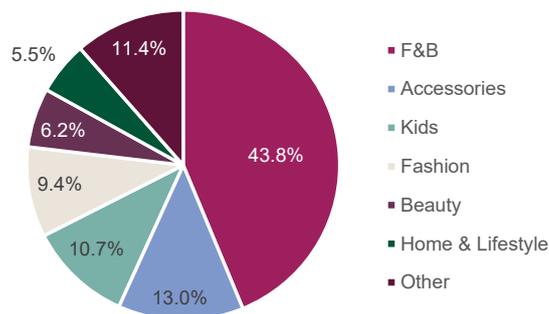
Source: Savills Research

GRAPH 4  
Overall vacancy rate and breakdown by submarket, Q1/2018 vs Q2/2018



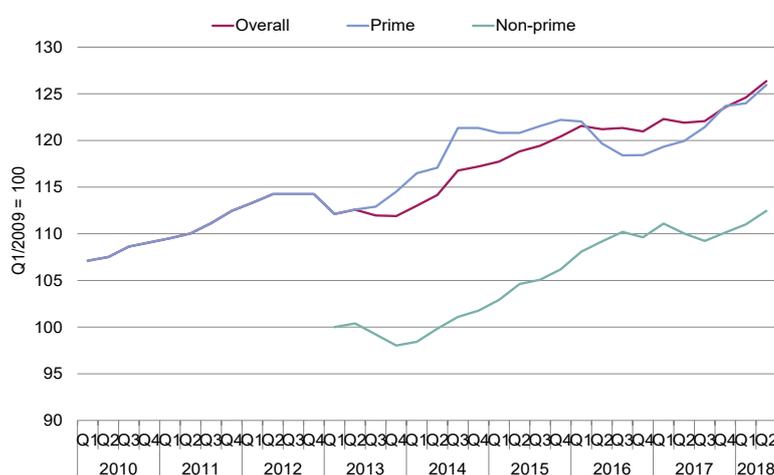
Source: Savills Research

GRAPH 5  
Newly-leased tenant mix breakdown, Q2/2018



Source: Savills Research

GRAPH 6  
Prime retail mall first-floor rental indices, 2010–Q2/2018



Source: Savills Research

edged down by 0.2 ppt QoQ to 3.9% whilst that of non-prime areas decreased by 1.3 ppts QoQ to 5.8% by the end of Q2/2018. The vacancy rate for the Baiyun submarket was lowest, resting at 1% in 1H/2018. By contrast, the vacancy rates for the Haizhu and Zhujiang New Town submarkets appeared to be highest during the same period, hovering at 12.8% and 12.6%, respectively. The F&B sector contributed the most demand in the leasing market during the quarter, with its new openings assimilating for more than 40% of the total, followed by the accessories, kids and fashion sectors.

### Rents

City-wide average first-floor rents increased by 1.4% QoQ and 3.7% YoY in Q2/2018 to RMB711.7 per sq m per month. Average first-floor rent in prime areas increased 1.6% QoQ and 5.0% YoY to RMB1,151 per sq m, per month, whilst that of non-prime areas reached RMB377 per sq m, per month, up 1.3% QoQ and 2.2% YoY.

It is worth mentioning that as rents for F&B retailers in other first-tier cities have already risen higher than the fashion sector, room for further rental growth in Guangzhou’s F&B sector is expected to be significant.

At a submarket level, Tianhe Road outperformed with average first-floor rent increasing by 6.7% YoY to RMB1232 per sq m per month in Q2/2018. This is the highest in the market, mainly due to its high-quality assets and relatively sophisticated retail ambiance. Conversely, first-floor rents in Panyu were the lowest, hovering at around RMB245 per sq m per month for the same time period.

### Market outlook

Approximately 500,000 sq m of new supply will enter the market in 2H/2018, mainly located in non-prime areas such as Baiyun and Panyu districts. The new Aeon Mall (永旺梦乐城) in Jinshazhou, with a GFA of

200,00 sqm, will be the largest retail project coming to the market this year.

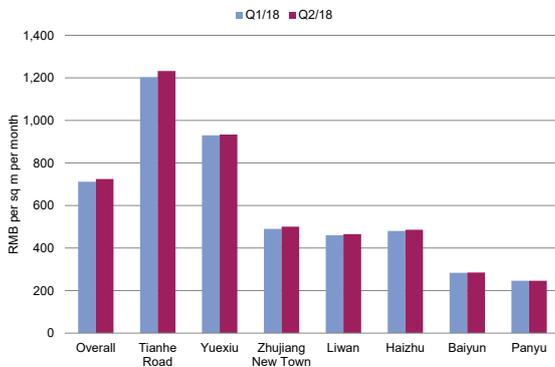
City-wide vacancy rates are expected to rise again on the back of new supply in 2H/2018. As Baiyun district will have the largest new supply, vacancy rates in the area are expected to increase at a faster rate

compared to those of other non-prime areas. Consequently, rental growth in Baiyun is expected to be moderate.

Improving market performance, positive retailer sentiment and increasingly selective consumer requirements will all encourage asset owners to innovate their properties to capitalise on future

growth. Additionally, the relatively strong economic fundamentals and the continued expansion in a number of retail sectors, such as F&B, education, entertainment, fashion and kids will support stable development of the market, attracting both domestic and foreign investors. ■

**GRAPH 7**  
**Overall average rent and rental breakdown by catchment, Q1/2018 vs Q2/2018**



Source: Savills Research

**TABLE 1**  
**Key future projects, 2018**

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

Source: Savills Research

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