Prime areas witness more relocations

Upscale and designer brands are actively upgrading their stores.

- Retail sales of consumer goods grew by 8.1% year-on-year (YoY) to RMB649.7 billion by the end of August 2019.

- Phase I of M. Live, located in the International Financial Town area, with a total retail GFA of 81,600 sq m debuted during Q3/2019. As a result, the total stock of the Guangzhou retail property market increased to approximately 5.3 million sq m.

- The vacancy rate of the overall Guangzhou retail property market decreased by 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.4% by the end of Q3/2019. The vacancy rates of prime and non-prime areas decreased by approximately 0.6 of a ppt QoQ and 0.2 of a ppt QoQ to 6.8% and 11.9%, respectively.

- Citywide ground-floor rent edged up by 0.7% QoQ to an average of RMB760.0 per sq m per month by the end of Q3/2019.

- Retail sales of consumer goods grew by 8.1% year-on-year (YoY) to RMB649.7 billion by the end of August 2019.

- The retail property investment market remained calm, with no shopping centres sold during the quarter.

- Eight new shopping centres, located in non-prime areas, are scheduled to debut in Q4/2019. The new supply is anticipated to push up the average vacancy rate in non-prime retail areas and soften rental growth across the board.

- Citywide leasing demand came mainly from F&B and children-related sectors. Demand for prime retail space from some well-known international brands also remained strong during Q3/2019.

“Children-related brands continue to be the highlight of the market. Kids’ brands, particularly those retailers focusing on early childhood education and children’s entertainment, continue to show a strong appetite for space.”

CARLBY XIE, SAVILLS RESEARCH
Demand from F&B retailers remained strong, evidenced by a large volume of leasing transactions this quarter. Arabica opened their first Guangzhou store at Parc Central; Xibei Youmianzun, known for its Chinese snacks, opened a new store at Panyu Wanda Plaza; and Coucou Hot Pot, which sells hotpot and milk tea, expanded by opening up a new store at K11 in Zhujiang New Town.

**Supply**
One shopping centre was completed during Q3/2019, Phase I of M. Live, located in International Financial Town, launched onto the retail market in Q3/2019, adding a total retail GFA of 81,600 sq m. With the new injection, total citywide stock increased to approximately 5.3 million sq m. This project was developed by Mayland Group, a residential developer who expanded its business coverage by tapping into the commercial property sector.

**DEMAND**
Overall, demand for quality retail space from a wide range of retail trades and brands in the Guangzhou market remained strong, evidenced by the full occupancy rate achieved at the aforementioned new project at its grand debut. This was in addition to the considerable amount of international retail brands upgrading their stores and relocating to prime shopping centres during Q3/2019. The citywide vacancy rate decreased by 0.4 of a ppt QoQ to 8.4% in Q3/2019. The vacancy rates in the prime and non-prime areas edged down by 0.6 of a ppt and 0.2 of a ppt QoQ to 6.8% and 11.9%, respectively.

Despite the ongoing Sino-US trade dispute, some upscale and boutique retail brands continued to show strong commitments to growing their businesses in Guangzhou, reflected by the store upgrade and relocation activities undertaken during Q3/2019. This was most apparent in the Tianhe Road submarket. For example, Etro opened a new store at Parc Central; Moncler is scheduled to open its first Guangzhou store at Taikoo Hui; and La Prairie will open its new store at the same mall later this year. Meanwhile, Hermes and Saint Laurent relocated within Taikoo Hui, each taking up street-front space with more visibility. Additionally, some brands, such as Chanel and Roger Vivier, underwent renovations in Taikoo Hui in response to ever-changing customer expectations and tastes.

In non-prime areas, children-related brands continued to be the highlight of the market, contributing significantly to market digestion in Q3/2019. Kids’ brands, particularly those focusing on early childhood education and children’s entertainment, continued to show strong appetites for taking up spaces for new stores.

**Outlook**
On the macroeconomic level, retailer sentiment is expected to remain broadly positive, supported by growth in population, GDP, retail sales and income, as well as residents’ changing consumption behaviour. This is more apparent among international retailers. Eight new shopping centres with a combined retail GFA of approximately 883,200 sq m in non-prime areas are scheduled to be completed in Q4/2019. In response, the citywide vacancy rate is expected to increase.

**Investment**
The retail property investment market in Guangzhou remained calm, with no shopping centres sold during the quarter. For many existing projects in the market, a greater return on capital value can be achieved through undertaking value-added initiatives, though it remains challenging for either investors or existing property owners to balance the cost and the residual value of the land tenure. The critical factor is whether an investor possesses retail asset management and operational capability as well as the capacity for a successful exit in the future.