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Savills World Research
Shenzhen

Briefing
Retail sector

April 2016

Image: SCC π Mall, Baoan district

SUMMARY

Retail sales continued to grow, while the market readies itself for an influx of new supply.

- Retail sales totalled RMB82.48 billion in the first two months of 2016, up 8.8% year-on-year (YoY).
- No new supply entered the market during Q1/2016, leaving stock stable at 385,000 sq m.
- First-floor prime shopping mall rents decreased 0.2% quarter-on-quarter (QoQ) in Q1/2016, to an average of RMB875 per sq m per month, down 3.9% YoY.
- Three new high-end shopping malls will be launched in Q2/2016, adding 373,500 sq m to the market and pushing total stock up 9.7% QoQ to 4.22 million sq m.

"With no new supply, stock remained the same as the previous quarter, allowing the market to continue to absorb space. An influx of new supply is expected to be launched in the next quarter, resulting in rents seeing downward pressure in the near term."

Sam He, Savills Research

Market overview

City-wide retail sales totalled RMB82.48 billion in the first two months of 2016, up 8.8% YoY. Retail sales have seen growth city-wide since Q3/2015.

No new supply was launched in the first quarter, and both rents and occupancy rates were down. In an attempt to avoid competing with shopping malls launched in Q4/2015, as well as improve the quality of tenants, some shopping malls delayed their launches to Q2/2016.

Supply

With no new supply launched in Q1/2016, stock stood at 3,854,158 sq m.

Five new projects are expected to launch in Q2/2016 (KK ONE, ZOLL rainbow Bay, EP Mall, Injoy, and SCC π MALL), with the majority in the Futian district. City-wide prime retail stock will be pushed up 9.7% to 4,227,658 sq m. Due to the influx of supply expected next quarter, rents are expected to continue to decrease.

Rents

First-floor prime shopping mall rents decreased 0.2% QoQ in Q1/2016, to an average of RMB875 per sq m per month, down 3.9% YoY. Rents in the Luohu, Nanshan and Longhua districts increased while Futian saw a significant decrease of 2.2% QoQ.

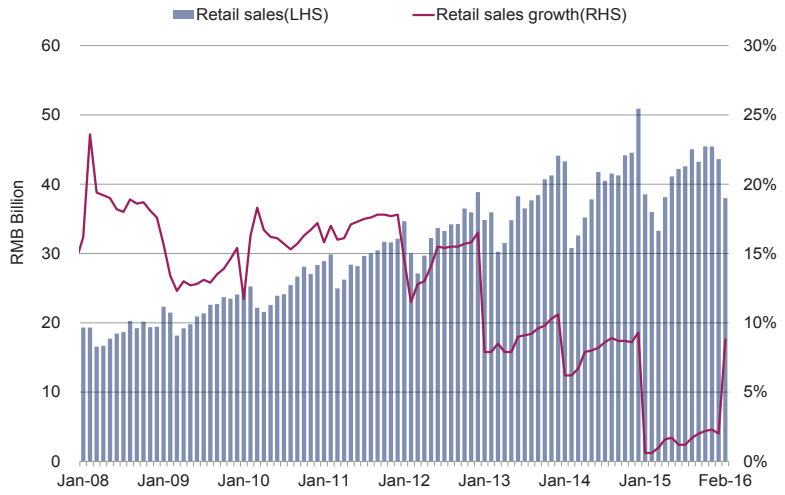
Occupancy rate

City-wide occupancy rates were 97.6%, up 3.8 percentage points (ppts). The proportion of lifestyle stores decreased 0.2 ppts to 39.1%.

As seen from the occupancy rates this quarter, Futian ranked last due City Plaza's low occupancy. However, the occupancy rate in Futian is expected to increase as take-up in this project increases. Futian also saw a decrease in lifestyle stores this quarter. Developers have begun to decrease the proportion of lifestyle stores in shopping malls due to their low rent returns. However, lifestyle stores are popular amongst consumers and can increase the reputation of a shopping centre. Futian is a mature commercial

GRAPH 1

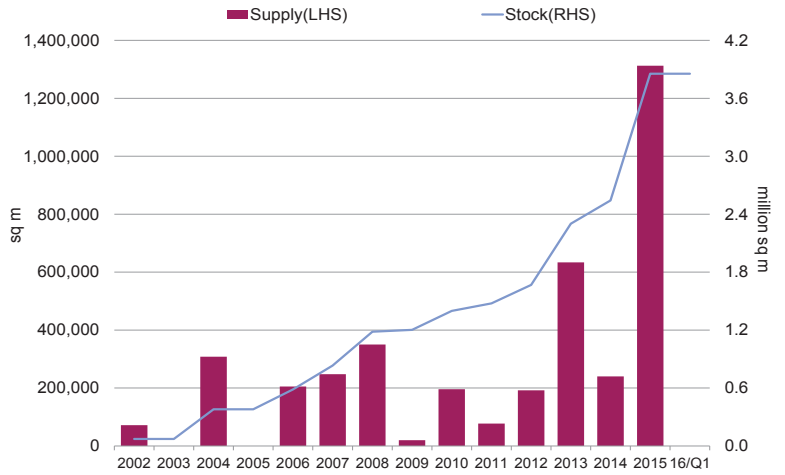
Retail sales, Jan 2008–Feb 2016



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2

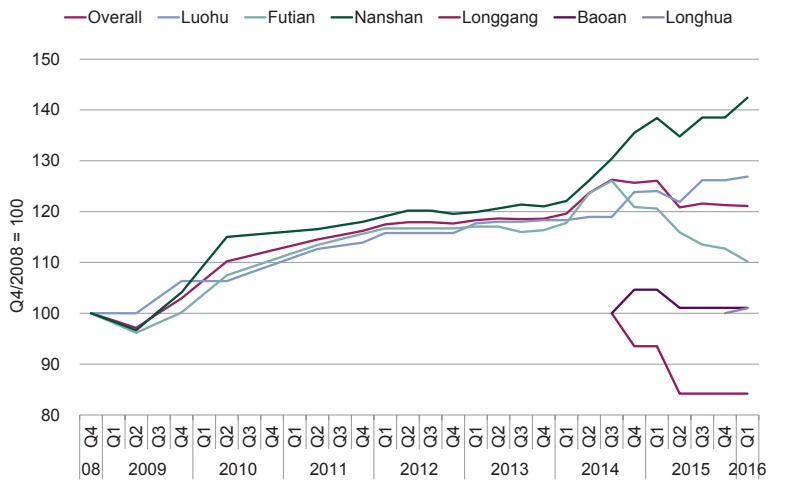
Shopping mall supply and stock, 2002–Q1/2016



Source: Savills Research

GRAPH 3

Shopping mall rental indices, Q4/2008–Q1/2016



Source: Savills Research

area which sees no benefits from additional lifestyle stores, but rather more traditional stores with high profits, resulting in occupancy rates increasing while lifestyle stores decrease.

Market outlook

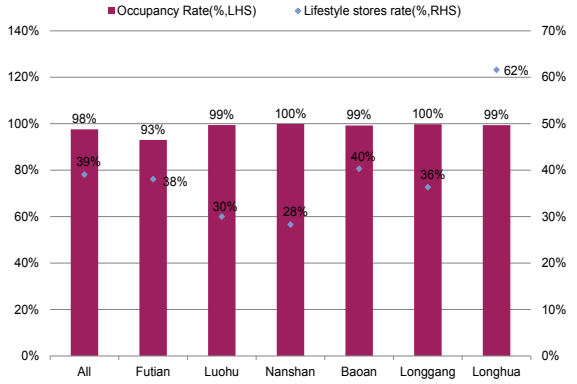
Five new shopping malls will be launched in Q2/2016, adding 375,000 sq m of retail space to the market and pushing stock up 9.7% to 4.22 million sq m.

A large volume of retail space will be added to the market, with the majority in the Futian district. In Q2/2016, rents are expected to decrease, with competition in the market growing fiercer.

The second half of 2016 is expected to see nearly twice the volume of supply compared with 1H/2016. This will place huge pressure on the retail market and it will be a challenge to absorb. 2015 saw shopping malls making adjustments to their tenant mix throughout the year in an attempt to stand out amongst tough competition. Developers will need to continue to adjust rents and tenant mix in order to stay attractive; this is expected to cause rent fluctuations in the future.

GRAPH 4

Occupancy rate and proportion of lifestyle stores by district, Q1/2016



Source: Savills Research
Note: Excludes F&B retailers

Project information

KK ONE

KK ONE is a shopping mall developed by a Kingkey Group subsidiary company – Kingkey Banner Commercial Investment & Operating Company. The site area is 93,500 sq m, with nearly 2000 parking spaces.

The mall has five storeys, with one underground. The occupancy rate is close to 90%, with the opening date set for 28 May 2016.

Location	Futian district
Owner	Kingkey Group.
Handover date	Q2/2016
Office GFA	93,500 sq m
No. of storeys	B/1-4/F

Source: Savills China Research

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