

Briefing Retail sector

February 2014



Image: Wongtee Plaza, Futian district

SUMMARY

Despite Shenzhen's improving retail sales, city-wide vacancy rates rose in Q4/2013 with only a mild increase in rents.

- Retail sales grew to RMB399 billion in the first 11 months of 2013, up 10.3% year-on-year (YoY) (nominal).

- Three new shopping malls, the 10,500-sq m 1234Space (华润1234Space), the 105,000-sq m Vmall (万科广场) and the 80,800-sq m Wongtee Plaza (皇庭广场), were launched onto the market in Q4/2013.

- First-floor shopping mall rents in prime areas rose by 0.1% in Q4/2013, to an average of RMB1,083 per sq m per month, up 0.8% YoY.

- Three new high-end shopping malls, totalling 280,000 sq m, are expected to launch on the market in 2014, pushing total stock up by 13%.

“Of the new supply in Q4/2013, it was noted that regional shopping malls were performing better and attracting more new tenants than high-end shopping malls.” Sherry Xu, Savills Research

➔ **Market overview**

Retail sales totalled more than RMB399 billion in the first 11 months of 2013, up 10.3% YoY (real growth rate of 7.6% YoY, adjusted for inflation), representing the largest YoY growth of 2013. This acceleration in growth is believed to be the result of strong growth in

sales in four key categories, namely cultural goods, communication appliances, jewellery and F&B.

Supply

Three new shopping malls, the 10,500-sq m 1234Space (华润1234Space), the 105,000-sq m Vmall (万科广场) and the 80,800-sq m Wongtee Plaza (皇庭广场),

were launched onto the market in Q4/2013.

1234Space is developed by China Resources Land and is located above Laojie Metro Station. This project is situated in East Gate Pedestrian Street, the oldest retail area in the city. 1234Space is called the 'mini MixC' and contains H&M's flagship store, designer brand Chictopia, the first Sisyphé book store in southern China and the first Tsui Wah Restaurant in Shenzhen.

Vmall (万科广场), located in Longgang central city, is the district's second main shopping mall, targeting household consumers by providing F&B, entertainment and various services. The mall includes a BLT high-end supermarket, Sephora and Toys "R" Us, as well as a Stellar International Cineplex.

Wongtee Plaza (皇庭广场) is located in the centre of Futian CBD adjacent to the Shenzhen Convention & Exhibition Center. Currently, many units are undergoing fit-out. Upon completion, this mall will contain brands such as Bona Cinema, COSCIA department store and the Dining Room.

Rents

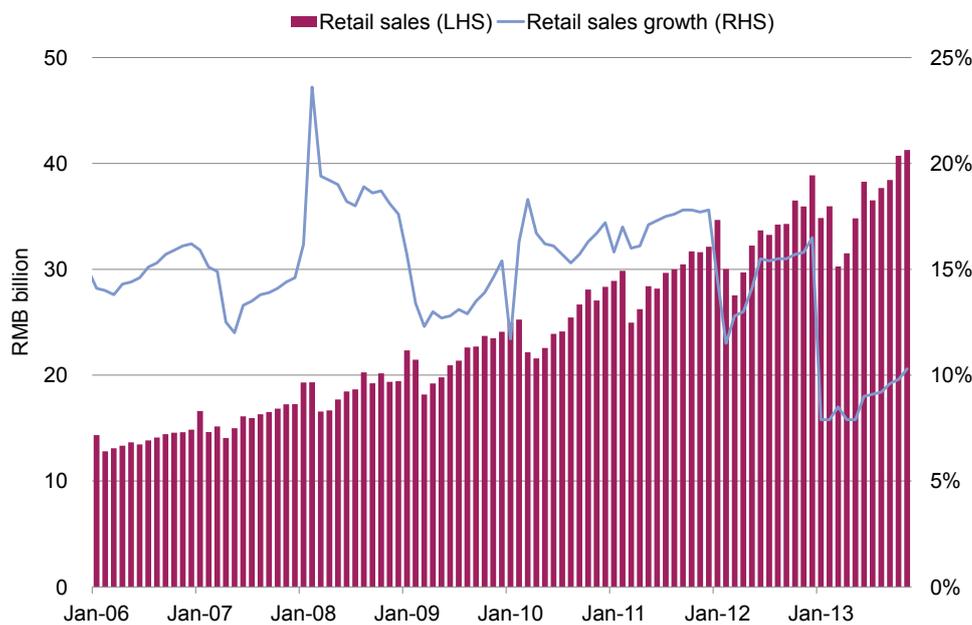
First-floor shopping mall rents in prime areas rose 0.1% quarter-on-quarter to an average of roughly RMB1,083 per sq m per month, up 0.8% YoY. Significant new supply in the fourth quarter suppressed the growth of prime shopping mall rents as there is increasing competition between projects in central areas. Landlords continued tenant mix reconfigurations in order to compete with online platforms, lowering rental growth. In 2013, MixC increased its number of entertainment brands by 100% and Coastal City increased its F&B brands by 47.8%.

Retailer and project information

- German luxury brand, MCM, launched its first store in Kingglory Plaza in Q4/2013.

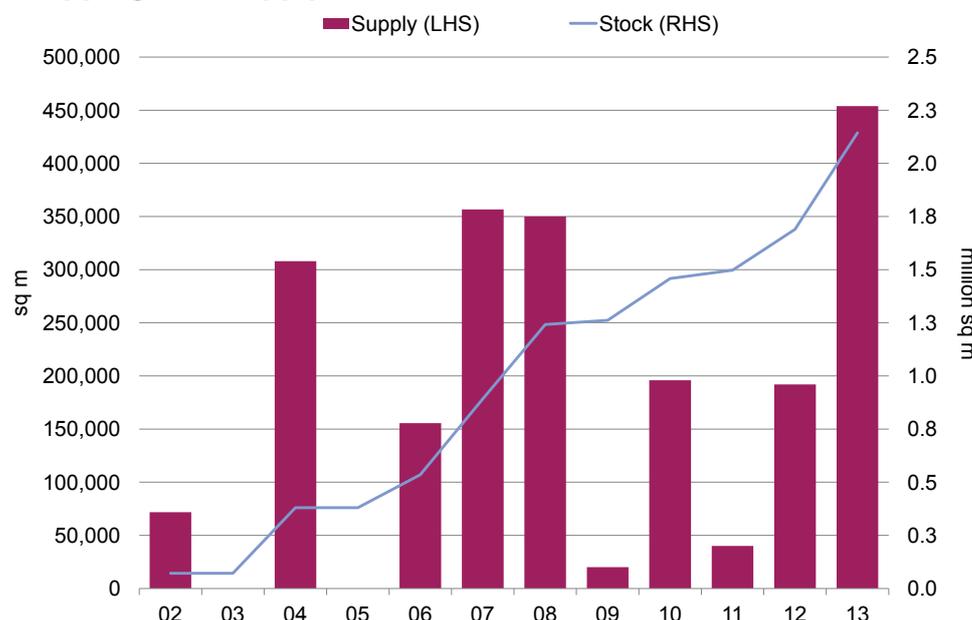
- McQ by Alexander McQueen, a British luxury brand, opened its

GRAPH 1 **Retail sales, Jan 2006–Nov 2013**



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2002–2013**



Source: Savills Research

first store in Shenzhen at the Yitian Holiday Plaza.

- British luxury brand, Vivienne Westwood, opened its first store in the KK mall in Q4/2013.

- The Dining Room, owned by Xiao Nan Guo Group, opened its first restaurant in Futian Coco Park in Q4/2013.

- New City Plaza was officially renamed Terminal One in Q4/2013, although the majority of designer brand stores and fashion boutiques are still in fit-out.

- Salvatore Ferragamo, Ermenegildo Zegna, Dunhill and Emporio Armani opened their second stores in Shenzhen in Terminal 3, Bao'an Airport in Q4/2013.

Market outlook

Three new high-end shopping malls, totalling 280,000 sq m, are expected to launch on the market in 2014, pushing total stock up by 13%.

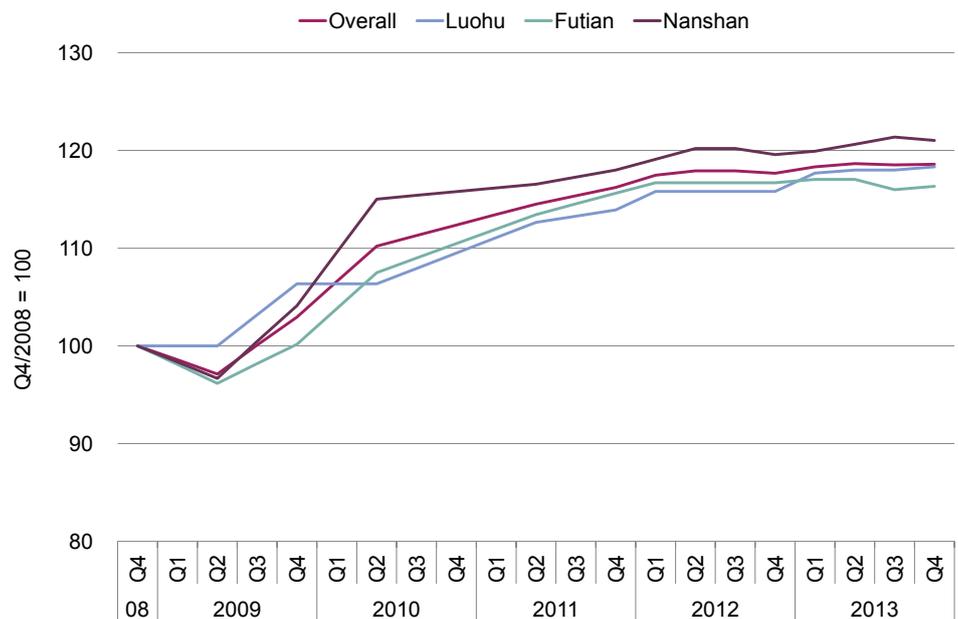
To avoid increasing competition in the city centre, new shopping malls are tending to launch in emerging retail areas and positioning themselves as regional or community

shopping malls. Two shopping malls launching in 2014, Longhua 9 Square (100,000 sq m) and Coco City (80,000), are located in Longhua New District.

Increasing competition from online platforms and weaker sales

growth are expected to dampen retail demand and suppress rental growth. Shopping malls will increase the number of retailers in the entertainment, F&B, children's toys and personal care sectors to attract more customers. ■

GRAPH 3 Shopping mall rental indices, Q4/2008–Q4/2013



Source: Savills Research

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