

Briefing Retail sector

March 2015



Image: Galaxy Coco City, Longgang district

SUMMARY

A significant amount of new supply is expected to enter the market in 2015, causing an adjustment in Shenzhen's shopping malls and leading to increasingly fierce competition.

■ Shenzhen's retail sales totalled RMB433.5 billion in the first 11 months of 2014, up 8.6% year-on-year (YoY).

■ One new project, Galaxy Coco City (星河Coco City), was handed over to the market in October 2014, pushing city-wide stock up 3.6% quarter-on-quarter (QoQ) to 2.32 million sq m.

■ First-floor prime shopping mall rents decreased 0.5% QoQ in Q4/2014, to an average of RMB1,064 per sq m per month, up 6.0% YoY.

■ Seven new high-end shopping malls are expected to be launched in 2015, located in Futian, Bao'an, Nanshan and Longgang districts, adding 740,000 sq m of retail space to the market and pushing total stock up by 31.9% to 3.06 million sq m. C Plaza(新港商城) and No.8 Outlets (8号仓奥特莱斯) have delayed their openings until 2015.

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 "A strong upward trend in rents was observed in Shenzhen's prime retail market in 2014, with most new supply located in Longhua area." Sam He, Savills

Research

➔ **Market overview**

Shenzhen's retail sales totalled RMB433.5 billion in the first 11 months of 2014, up 8.6% YoY. The declining growth rate reflects the slowing down of the economy as Shenzhen gradually enters a period of economic adjustment.

Supply

One new project, Galaxy Coco City (星河Coco City), was handed over to the market in October 2014, pushing city-wide stock up 3.6% QoQ to 2.32 million sq m. Coco City has become another major shopping centre in

Longhua area and attracts many customers from the surrounding neighbourhoods. C Plaza(新港商厦) and No.8 Outlets(8号仓奥特莱斯) have delayed their openings until 2015.

Rents

First-floor prime shopping mall rents decreased 0.5% QoQ in Q4/2014, to an average of RMB1,064 per sq m per month, up 6.0% YoY. A significant decline was observed in Futian district, where the average rent of a particular project was decreased this quarter in order to reposition itself and attract more suitable tenants. Both Luohu and Nanshan witnessed a strong upward trend in rents.

Retailer and project information

Retailer information for Q4/2014

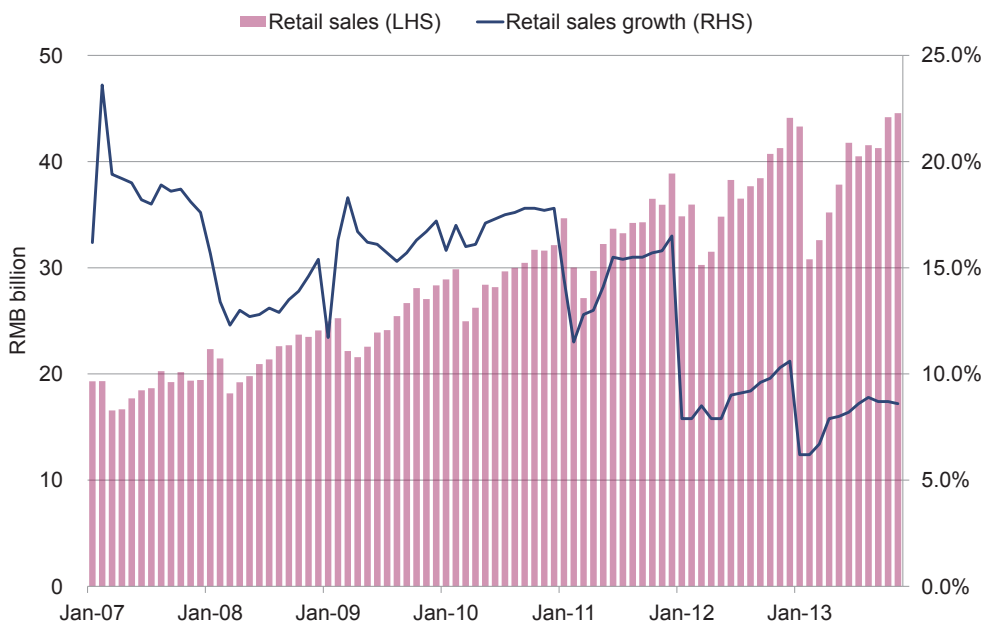
- Trussardi, an Italian luxury leather brand, launched its first store in Shenzhen in Wongtee Plaza in Futian district.
- Santoni, an Italian shoes brand, opened its first store in Shenzhen in Wongtee Plaza in Luohu district.
- Versus, an Italian light luxury brand opened its first store in this city in City Mall in Futian district.
- Young New York style brand DKNY launched its second store in Shenzhen in City Mall in Futian district.

Project information

Galaxy Coco City has a GFA of 80,000 sq m covering two floors. The project is located in the central area of Longhua, near Futian district, thus attracting many customers from Meilin area, a residential zone north of Futian.

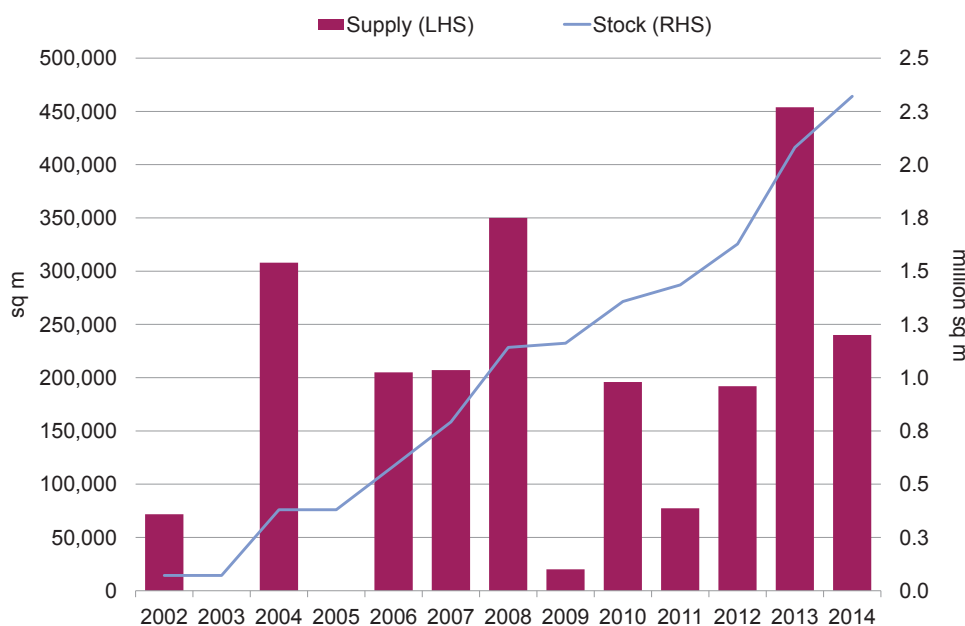
Galaxy Coco City has created a Children's Castle, with a GFA over 5,000 sq m, gathering child-related stores such as children education institutes, a children's playground, children's clothing and a children's bookstore. The Children's Castle has become the biggest feature of the project. In addition to BONA International Cinema and CR Vanguard, many other fashion and F&B stores have also entered the project.

GRAPH 1 **Retail sales, Jan 2008–November 2014**



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2 **Shopping mall supply and stock, 2002–2014**



Source: Savills Research & Consultancy

2014 market overview

In 2014, the growth rate of Shenzhen's retail sales continued to decline. The slowing of economic growth showed that the market is entering a late upswing. On the other hand, traditional retailers were shocked by the rise of e-commerce. Many shopping centres have readjusted their brand strategy in order to upgrade the structure of their retail offerings. In the case of MixC, this famous shopping centre has introduced almost 40 new brands in 2014. 15% of stores have been readjusted during the last year, while 43% were changed during the past three years. The quality of offerings has therefore improved by the introduction of many special catering brands, reduction of mass and high-end F&B stores and addition of entertainment and leisure stores.

The large increase in rents in 2014 was mainly due to a smaller amount of new supply entering the city centre. Less competition, coupled with the upgrading of existing shopping malls, has pushed rents up. The decrease in rents in Futian district during the fourth quarter was mainly a result of adjustments seen in a certain project; however this did

not have a substantial impact on the overall city-wide trend.

Most new supply in 2014 was concentrated in Longhua area, a new residential area in Shenzhen where consumption power is near or above average. In accordance with government planning, the retail market in non-central areas has begun to develop, with main customers coming from surrounding neighbourhoods where the rents are slightly lower than in the city centre.

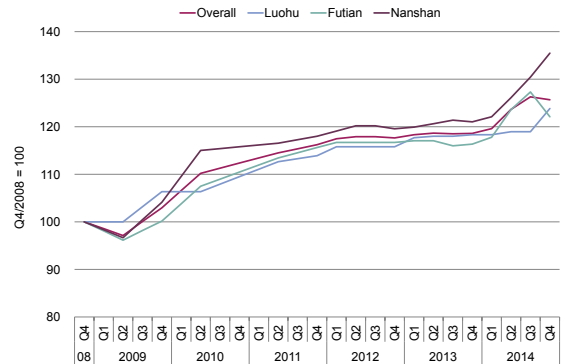
Market outlook

Seven new high-end shopping malls are expected to be launched in 2015, located in Futian, Bao'an, Nanshan and Longgang districts and adding 740,000 sq m of retail space to the market, pushing total stock up by 31.9% to 3.06 million sq m. As a large volume of high-quality supply is expected in Bao'an and Nanshan districts, average rents are anticipated to increase during the next year. C Plaza(新港商城) and No.8 Outlets(8号仓奥特莱斯) have delayed their openings until 2015.

With the development of infrastructure within the city and the

GRAPH 3

Shopping mall rental indices, Q4/2008–Q4/2014



Shopping mall rental indices, Q4/2008–Q4/2014

slowdown of economic growth, the Shenzhen retail market is almost saturated. Supply in the next three years is expected to reach 1.4 million sq m, significantly increasing competition within the market. The overall trend for rents is expected to stabilize or even decline, while vacancy rates are anticipated to increase. Shopping malls will focus on the introduction of brands. Moreover, in order to resist the threat of e-commerce, more experimental stores are expected to enter the Shenzhen market. ■

Please contact us for further information

Savills Research



James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn



Sam He
Senior Manager
+8620 3892 7350
sam.he@savills.com.cn

Savills Agency



Woody Lam
Managing Director
+8620 3892 7108
woody.lam@savills.com.cn



Benny Kwok
Director
+8620 3892 7174
benny.kwok@savills.com.cn

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