

Briefing Retail sector

May 2015

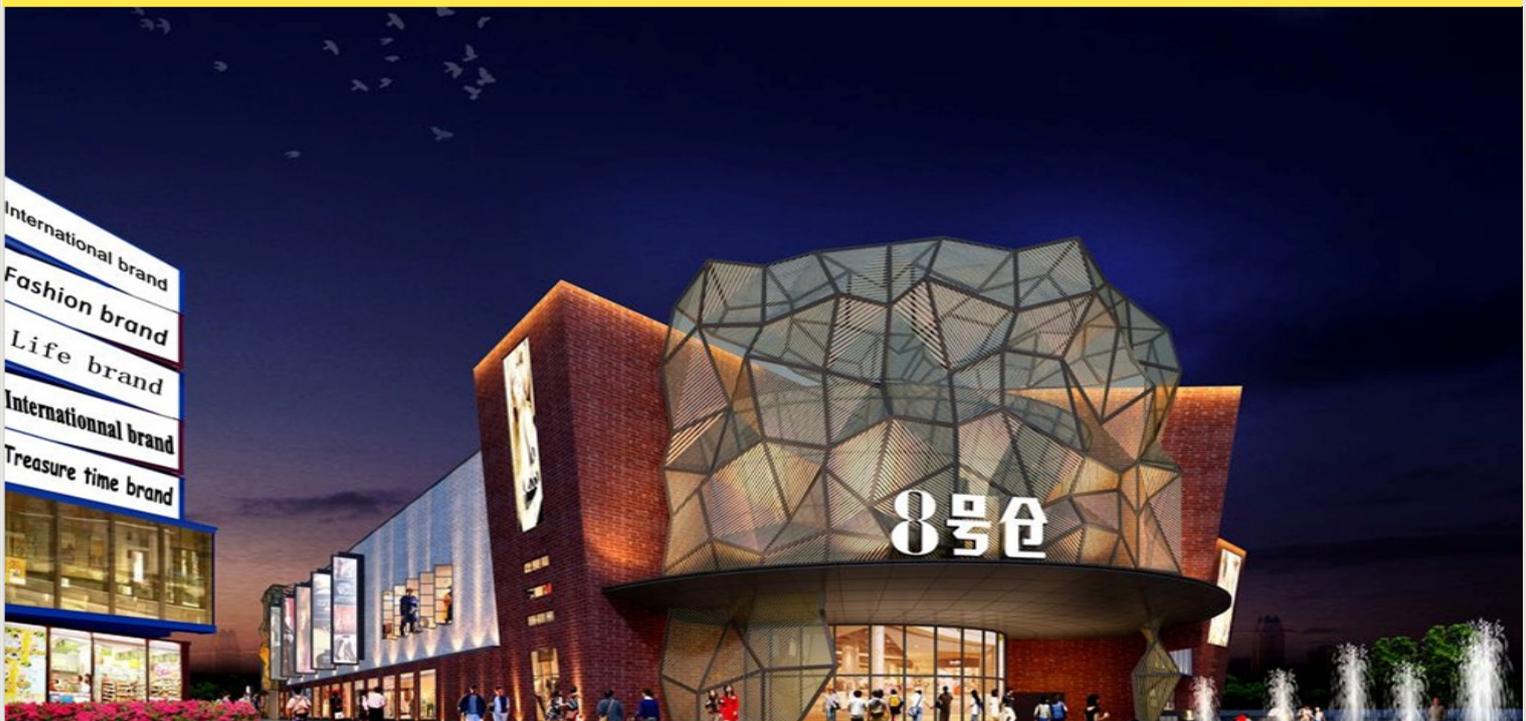


Image: No.8 Outlets, Longhua district

SUMMARY

A significant amount of new supply is expected to enter the market in the second quarter of 2015, placing a downward trend on occupancy rates in the prime retail market in the city centre, which currently has relatively high vacancy rates.

■ Shenzhen's retail sales totalled RMB74.54 billion in the first two months of 2015, up 0.6% year-on-year (YoY).

■ Two new projects, C Plaza and No.8 Outlets, were handed over to the market in Q1/2015, pushing city-wide stock up 6.0% to 2.46 million sq m.

■ First-floor prime shopping mall rents increased 0.3% quarter-on-quarter (QoQ) in Q1/2015, to an

average of RMB1,022 per sq m per month, up 5.4% YoY.

■ One new high-end shopping mall, MH Mall located in the Longgang district, is expected to be launched in Q2/2015, adding 90,000 sq m of retail space to the market and pushing total stock up by 3.7% to 2.55 million sq m. In the second half of 2015, two new shopping centres will appear in the Bao'an district, and one in the Futian district, adding 332,000 sq m to the market.

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 "A strong upward trend in rents was observed in Shenzhen's prime retail market in the first quarter of 2015, with limited new supply located in the Futian and Longhua districts."

Sam He, Savills Research

➔ **Market overview**

The Shenzhen retail market witnessed a strong start to 2015, with retail sales totalling RMB7.45 billion in the first two months of 2015, up 0.6% YoY. The decline of the growth rate reflects that the growth of the economy is slowing as Shenzhen gradually enters a period of economic adjustment. On the other hand, as most residents of Shenzhen come from other cities, many immigrants return home during the Spring Festival in the first quarter, which is a traditional off-season.

Supply

Two new projects, C Plaza (福田新港商城) and No.8 Outlets (8号仓奥特莱斯), were handed over to the market in Q1/2015, pushing city-wide stock up to 2.46 million sq m. No.8 Outlets has become another major shopping centre in the Longhua area, attracting customers from surrounding neighbourhoods. These projects combined equalled half of the total supply in 2014.

In the next quarter, one new high-end shopping mall, MH Mall (观澜湖新城购物中心) located in the Longgang district, is expected to be launched, adding 90,000 sq m of retail space to the market and pushing total stock up to 2.55 million sq m.

Rents

First-floor prime shopping mall rents increased 0.3% QoQ in Q1/2015, to an average of RMB1,022 per sq m per month, up 5.4% YoY. The highest average rent was recorded in the Luohu district. In the Futian district, rents continued to fall due to tenant adjustment in a number of shopping malls, while Nanshan witnessed a strong upward trend in rents, mainly due to decreasing vacancy rates and higher bargaining power of landlords in the area.

Vacancy rate

In the first quarter, prime shopping mall vacancy rates were recorded at 5.2%. The Futian district recorded high vacancy rates due to two

shopping centres undergoing tenant adjustments. The main drivers of the market are currently fashion retailers.

Another emerging driver of the retail market is lifestyle stores, including food and beverage, cinema and theatre, due to the fact they are large space occupiers. This, alongside their ability to bring higher levels of footfall to a project, means they benefit from lower rental levels within shopping malls. Overall, it is estimated that lifestyle retailers take up around 43% of current shopping mall stock, with the highest levels seen in the Futian district. More

traditional commercial centres see lower levels of lifestyle brands as they mainly concentrate on introducing more traditional types of retailers.

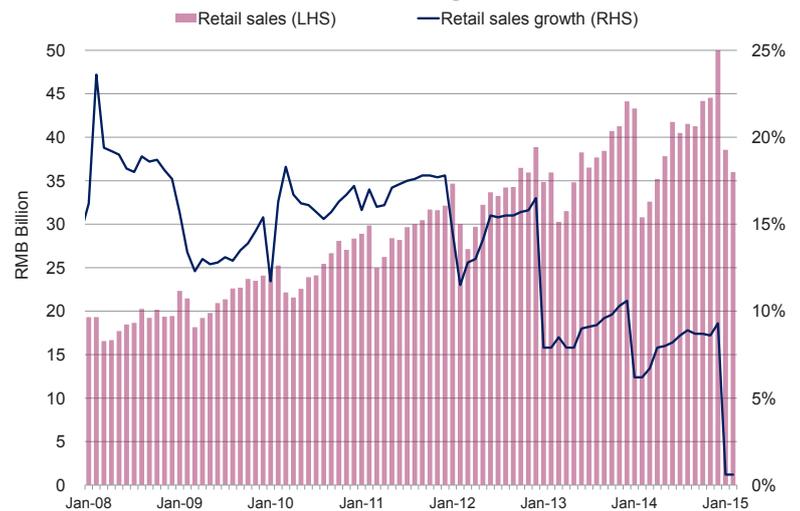
Retailer and project information

Retailer information for Q1/2015

- Miss Sixty and Gillivo both launched their new stores in Shenzhen in COCO Park in the Futian district.

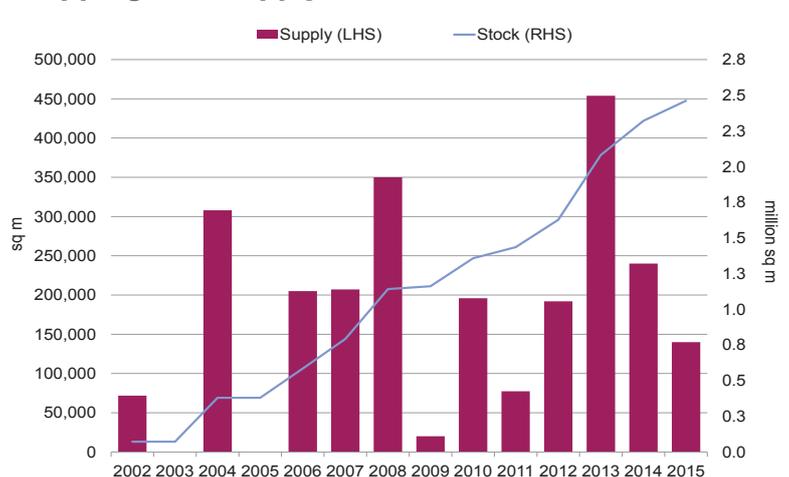
- J.Lindeberg, a famous Swedish brand, opened its store in KK Mall in the Luohu district.

GRAPH 1 **Retail sales, Jan 2008–February 2015**



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2 **Shopping mall supply and stock, 2002–Q1/2015**



Source: Savills Research & Consultancy

- Young New York style brand Kate Spade launched a store in Coastal City in the Nanshan district.

Project information

No.8 Outlets has a GFA of 80,000 sq m, with two underground floors and three floors above ground. The project is located in the central area of Longhua, near the Futian district, thus attracting many customers from the Meilin area, a residential zone in the north of the Futian district. No.8 Outlets has introduced more than 200 brand discount stores and child-related stores, such as educational institutes, a children's playground, and children's clothing and bookstores. In addition, Pacific cinema and specialty restaurants have also entered the project.

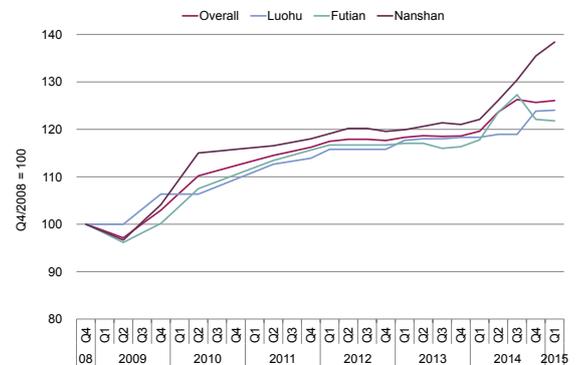
Market outlook

One new high-end shopping mall, MH Mall located in Longgang, is expected to be launched in Q2/2015, adding 90,000 sq m of retail space to the market and pushing total stock up to 2.55 million sq m. As no new supply is expected in central districts, average rents are likely to remain stable during the next quarter. In the second half of 2015,

CentralCon, CRC and 9-Square are all expected to be launched onto the market in the Bao'an and Futian districts. The two new projects in Bao'an will largely promote the commercial atmosphere in this non-central district.

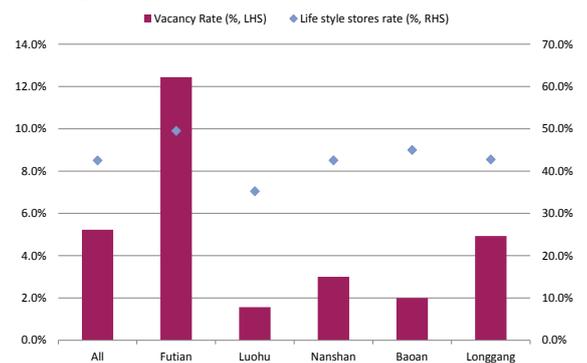
Most of the prime retail projects have vacancy rates lower than 5%. However, a few projects in central districts are finding it hard to decrease vacancy rates and may experience tough situations when new supply enters the market. Brands within the Shenzhen retail market, especially fast-fashion brands and food and beverage brands, are largely homogenised across a number of malls. Therefore, the introduction of new and immature brands to the market has become an innovative way for many shopping centres to attract people. ■

GRAPH 3 Shopping mall rental indices, Q4/2008 -Q1/2015



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

GRAPH 4 Shopping mall vacancy rates and lifestyle stores rates, Q1/2015



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

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