

# Briefing Retail sector

July 2015



Image: MH Mall, Longhua district

## SUMMARY

New supply will continue to be seen throughout Q3/2015; however, no new projects are expected to enter central areas. Vacancy rates are expected to increase, while rents may slightly decline in the second half of 2015.

- Shenzhen's retail sales totalled RMB187.07 billion in the first five months of 2015, up 4.1% year-on-year (YoY).

- One new project, UUPARK, was handed over to the market in Q2/2015, pushing city-wide stock up 2.2% to 2.51 million sq m.

- First-floor prime shopping mall rents decreased 4.2% quarter-on-

- quarter (QoQ) in Q2/2015, to an average of RMB987.5 per sq m per month, down 2.3% YoY.

- Three new high-end shopping malls will be launched in Q3/2015 – MH Mall and UniPark located in Longhua district, and SCC π Mall located in Baoan district – adding 215,000 sq m of retail space to the market and pushing total stock up 8.6% to 2.73 million sq m.

“The majority of newer prime retail stock is located in uptown locations. Large volumes of new supply will place a downward pressure on rental growth, with the remainder of 2015 expected to witness overall rents remain flat or even decline.”

Sam He, Savills Research

➔ **Market overview**

As the national economic outlook begins to show signs of recovery, the real estate industry and consumer confidence also begin to recover. In the first five months of 2015, an improvement in retail sales can be seen in Shenzhen totalling RMB187.07 billion, up 4.1% YoY.

During the remainder of 2015, a large amount of new supply is expected but the majority will be seen in non-central areas. Huge supply placed a downward pressure on rents in non-central areas in Q2/2015. A significant decline in rents is anticipated in central districts; CITIC City Plaza, located in Futian, changed owner and is currently going through a period of renovation, which brought down overall vacancy rates in central districts.

**Supply**

In the first half of 2015, the majority of supply was launched in non-central districts. One new project, UUPARK, located in Longhua district, was launched onto the market in Q2/2015, adding 68,000 sq m.

**Rents**

First-floor prime shopping mall rents decreased 4.2% QoQ in Q2/2015, to an average of RMB987.5 per sq m per month, down 2.3% YoY. During the first half of 2015, city-wide rents saw some fluctuation, ending Q2/2015 with a downward trend. This can be attributed to the majority of supply entering non-central locations and shopping malls within central areas going through a period of tenant adjustment.

**Vacancy rate**

In Q2/2015, city-wide vacancy rates stood at 4.7%, while vacancy rates of prime shopping malls are lower than 2%. Shopping malls in central districts have begun a period of tenant adjustment to attract a wider variety of retailers.

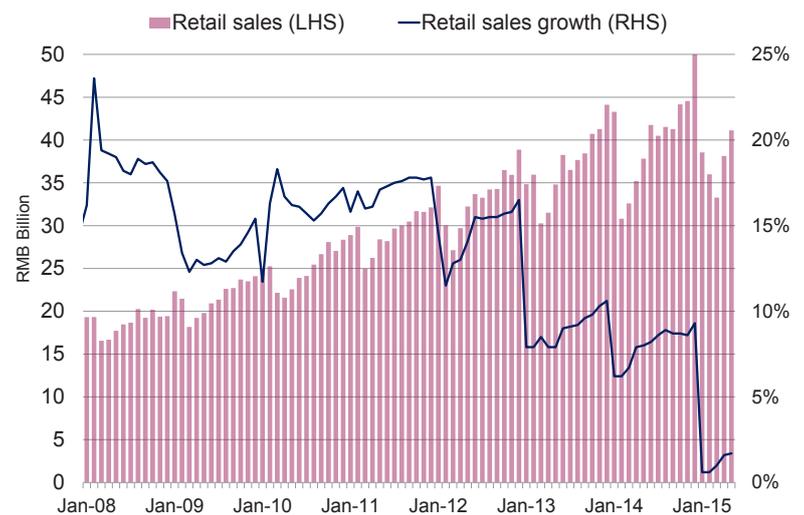
As indicated by the low city-wide vacancy rates, demand for prime

retail malls is nearly saturated; however, supply continues to come onto the market. Stronger economic indicators provide opportunities for prime retail malls; however rents are continuing to witness a downward pressure. To increase competitiveness, shopping malls in central districts have had to introduce more lifestyle brands and adjust tenants to increase occupancy rates.

Presently, lifestyle stores account for 48.1% of occupied space in Shenzhen, with a higher proportion

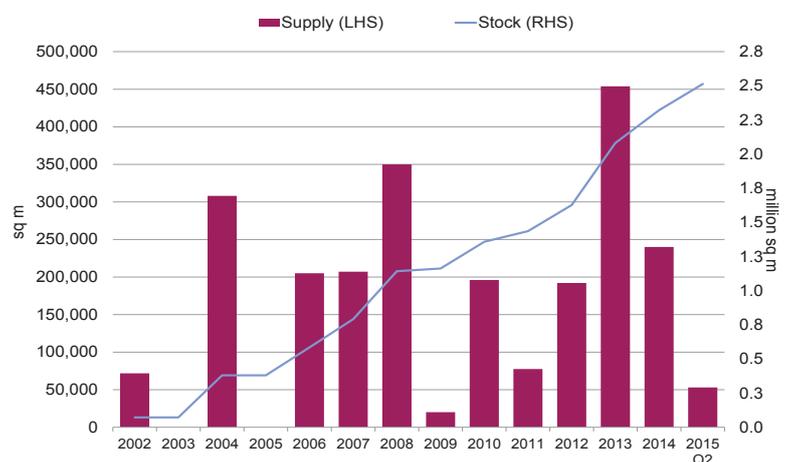
in the Futian and Baoan districts. As shopping malls in Futian district are more mature and surrounded by office buildings, the demand for entertainment is much stronger. For example, Haiya Mega Mall, located in Baoan district, is surrounded by residential buildings and caters to the families in the neighbourhood. After CITIC City Plaza was sold to PingAn, the shopping mall has begun a period of tenant adjustment, introducing more lifestyle brands and activities, leading to falling vacancy rates.

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



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2 **Shopping mall supply and stock, 2002–Q2/2015**



Source: Savills Research & Consultancy

### Project information

UUPARK, in Longhua district, has been converted from an old industrial building into a shopping mall by Baiyi Shenzhen Management Ltd. as part of an urban redevelopment project. The conversion represents a shift of focus within Shenzhen's economy from a lease-driven, new-build era to an investment- and management-driven redevelopment one.

Launched at the end of June, the project adds nearly 68,000 sq m to the market, with retail space spanning six floors (1-6F). Positioned as an urban lifestyle shopping centre, UUPARK introduces a wide variety of components, including retail, leisure, entertainment, F&B, culture,

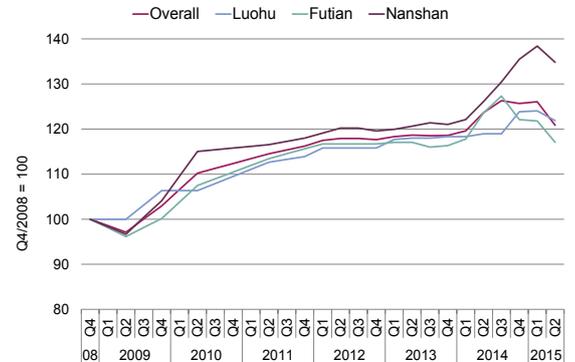
education and office space. As the first shopping mall in Shenzhen with over 60% green space and placing an emphasis on convenience and accessibility, the mall aims to create a "shopping park" where consumers are able to leisurely walk around in garden-like settings.

### Market outlook

Three new shopping malls will be launched in Q3/2015 – MH Mall and UniPark located in the Longhua district and SCC π MALL located in the Baoan district – adding 215,000 sq m of retail space to the market. A further three projects are expected to launch in Q4/2015. This continued flow of supply is expected to result in a continued decline in rents in the short term. ■

GRAPH 3

### Shopping mall rental indices, Q4/2008–Q2/2015



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

GRAPH 4

### District occupancy rates and % of life style stores (ex. Food and beverage), Q2/2015

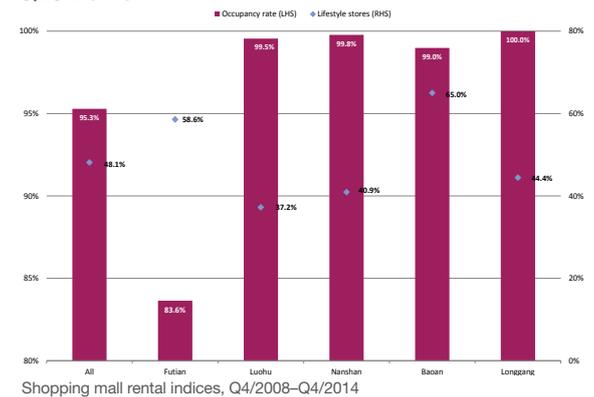


TABLE 1

### Project information - UUPARK

Location	Longhua district
Owner	Baiyi Shenzhen management Ltd.
Handover date	Q2/2015
Office GFA	68,000 sq m
No. of storeys	1-6F

Source: Company websites; Savills Research

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