

Briefing Retail sector

October 2015



Image: 9 square-Shenzhen, Futian district

SUMMARY

New supply will continue to be seen throughout Q4/2015, with a large amount of new projects expected to enter both central and non-central areas. As a result, vacancy rates are expected to increase, while rents may decline slightly in the short-term.

- Shenzhen's retail sales totalled RMB324 billion in the first eight months of 2015, up 1.7% year-on-year (YoY).
- Two new projects, MH Mall located in the Longhua district, and Xiasha Kinkey Banner shopping mall located in the Futian district, were handed over to the market in Q3/2015, pushing city-wide stock up 13.2% quarter-on-quarter (QoQ) to 2.86 million sq m.
- First-floor prime shopping mall rents increased 2.7% QoQ in Q3/2015, to an average of RMB1013.3 per sq m per month, down 1.7% YoY.
- Ten new high-end shopping malls will be launched in Q4/2015, adding 867,350 sq m of retail space to the market and pushing total stock up 30.3% QoQ to 3.72 million sq m.

.....
 "The proportion of lifestyle stores within the market is falling as the market goes through a period of adjustment in order to offer a wider variety of retailers to attract and retain consumers." Sam He, Savills Research

➔ **Market overview**

Shenzhen city-wide retail sales totalled RMB324 billion in the first eight months of 2015, up 22.8% YoY. Two high-end shopping malls were handed over to the market in this quarter, while rents remained stable compared to last quarter. The influx of supply expected during the next quarter is anticipated to place a downward pressure on both rents and prices.

Supply

Two new high-end retail shopping malls, MH Mall located in the Longhua district, and Xiasha Kinkey Banner shopping mall located in the Futian district, were launched onto the market in Q3/2015, pushing retail stock up to 2.86 million sq m, up 30.3% YoY.

Although only two shopping malls were launched onto the market, retail stock increased relatively quickly (13%), as MH Mall is now the largest shopping mall in Shenzhen at 240,000 sq m.

Rents

First-floor prime shopping mall rents increased 2.7% QoQ in Q3/2015, to an average of RMB1013.3 per sq m per month, down 1.7% YoY, with all districts maintaining an upward trend this quarter. Nanshan district rents increased 2.8% QoQ to an average of RMB960 per sq m per month – the second highest rent in the city, after the Luohu district.

Occupancy rate

In Q3/2015, city-wide occupancy rates stood at 96.7%, up 1.4 percentage point (ppts).

Occupancy rates in the Futian District were the lowest of any district in Shenzhen at 88.1% in Q3/2015, down 4.4 ppts QoQ. City Mall, located in the Futian District and owned by Ping'an Insurance has undergone some renovation of its façade over the nine months leading up to June 2015, leading to a temporary drop in occupancy

rates. Occupancy rates have since recovered and are expected to continue to improve through to the end of the year.

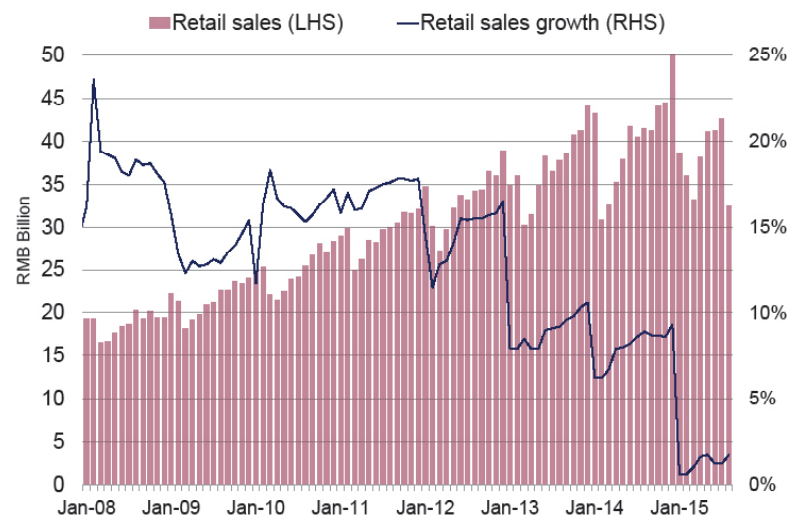
High-end retail lifestyle stores account for 37.8% of occupied space in Shenzhen, down from 48.1% in Q2/2015, with a higher proportion seen in the Futian and Baoan districts. As a number of shopping malls are now looking to diversify their tenant mix, many have stopped pursuing lifestyle stores and are beginning to introduce other retailers in the fashion and accessories sector. Although

lifestyle stores were able to help shopping malls attract customers in the first instance, projects are now looking at other ways to retain these consumers. As more types of retailers are introduced, consumers have a wider variety to choose from, also attracting a wider audience of people into the mall.

Project information

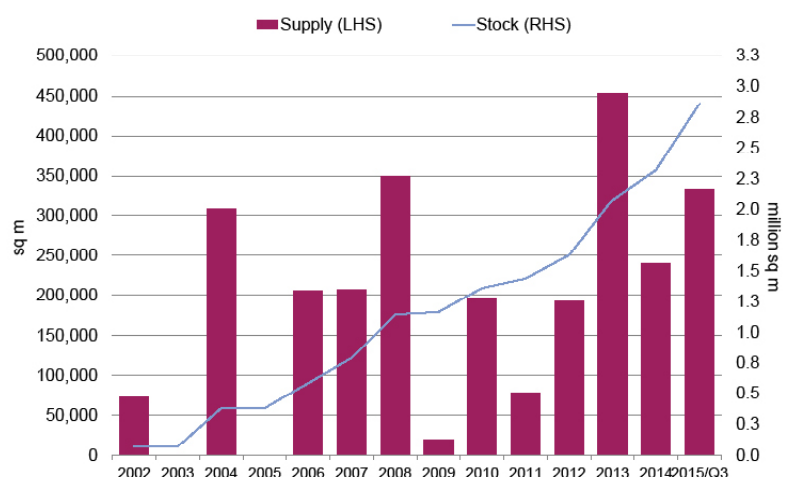
MH Mall, located in the Longhua district, is a part of Mission Hill New City, developed by Mission Hills Properties. The project is the first HOPSCA project spanning Shenzhen and Dongguan.

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



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2 **Shopping mall supply and stock, 2002–Q3/2015**



Source: Savills Research

MH mall has the largest retail area (240,000 sq m) in Shenzhen. The mall held its soft opening at the end of September with approximately 80% of stores open.

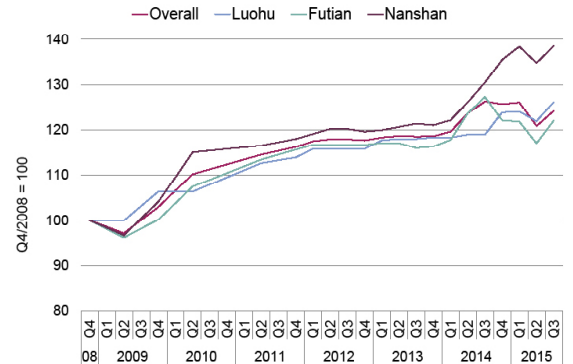
Market outlook

Ten new shopping malls will be launched in Q4/2015, adding 867,000 sq m to the market and pushing stock up 30.3% to 3.72 million sq m.

New supply is expected to be located in the Futian, Nanshan, Baoan, Longgang and Pingshan districts, resulting in a downward pressure on rents and occupancy rates of both central and non-central districts.

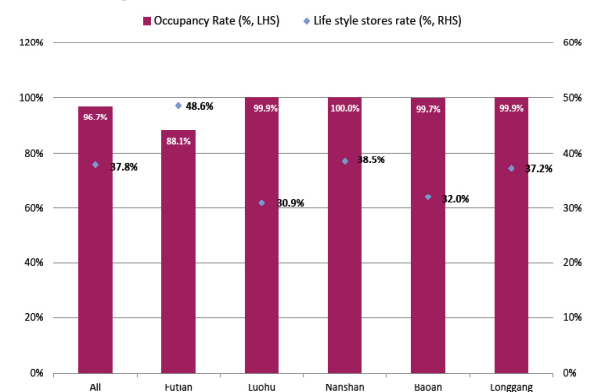
Shenzhen retail space total annual supply in 2015 is expected to reach 1.4 million sq m – an increase of 1.17 million sq m from the 240,000 sq m in 2014 – which will be mainly located in the Futian, Baoan and Longgang districts. The Longgang and Baoan districts are strong residential areas with a large number of residents to support community retail formats. As developers are taking a cautious approach to the timing of launching their projects, it is currently unknown how much new supply will be seen in 2016. However, it is likely to be a similar amount to that seen in 2015. ■

GRAPH 3 Shopping mall rental indices, Q4/2008–Q3/2015



Source: Savills Research

GRAPH 4 Occupancy rates and proportion of life style stores by districts (ex. Food and beverage), Q3/2015



Source: Savills Research

TABLE 1 Project information - MH Mall

Location	Longhua district
Owner	Mission Hills Properties.
Handover date	Q3/2015
Office GFA	240,000 sq m
No. of storeys	B1-4F

Source: Savills Research

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



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

Project & Development Consultancy



Sherry Xu
 Director
 +86755 8828 6922
 sherry.xu@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.