

Briefing Retail sector

January 2016



Image: ICO, Longhua district

SUMMARY

Q4/2015 saw an influx of supply launched onto the market in both central and non-central areas to meet consumer needs. Rents will see a slight increase in 2016.

- Shenzhen's retail sales totalled RMB458 billion from January to November 2015, up 2.3% year-on-year (YoY).

- In Q4/2015, eight new projects were handed over to the market in both central and non-central areas, pushing city-wide stock up 20.1% quarter-on-quarter (QoQ) to 3.85 million sq m.

- First-floor prime shopping mall rents decreased 0.2% QoQ in Q4/2015, to an average of RMB855 per sq m per month, down 3.5% YoY.

- 14 new high-end shopping malls will be launched during 2016, adding around 2.03 million sq m of retail space to the market and pushing total stock up 52.6% QoQ to 5.88million sq m.

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“The Shenzhen retail market was strong in 2015 and is expected to post an even better performance in 2016. Both the Luohu and Nanshan districts saw rental growth, while Futian recovered from a series of adjustments and showed an increase in occupancy rate.” Sam He, Savills Research

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➔ **Market overview**

From January to November 2015, city-wide retail sales totalled RMB458.2 billion, up 2.3% YoY.

The prime retail market had a good performance this year, with both Luohu and Nanshan recording 5% rental growth. However, a large amount of new supply pressed rentals to decrease, which resulted in an increased occupancy rate. Strong market demand will gradually digest the accumulated stocks and rents are expected to go up in the next year.

Supply

Eight new high-end shopping malls in the Futian, Nanshan, Baoan, Yantian, Longgang, Longhua and Pingshan districts were launched onto the market in Q4/2015, pushing retail stock up to 3.85 million sq m, up 20.1% YoY. The sudden boost in stock will result in some pressure on the destocking process in the near future.

Rents

First-floor prime shopping mall rents decreased 0.2% QoQ in Q4/2015, to an average of RMB855 per sq m per month, down 3.5% YoY, with all districts maintaining a downward trend this quarter. The Luohu district saw the highest rents of all districts in Shenzhen at RMB1207.5 per sq m per month, followed by the Nanshan district with an average rent of RMB960 per sq m per month. The Futian district recorded the lowest average rent in the central area at RMB776 per sq m per month.

To some extent, the large amount of new supply put pressure on the rental growth. Both the central and the non-central areas saw a number of projects launched onto the market, leading to an overall decrease in rents. Rental growth in the Longgang district proved to be the lowest (-10% YoY), followed by Futian (-6.8% YoY). Due to the significant increase of stock, Futian saw around 300,000 sq m of new supply added

to the retail stock, while Longgang witnessed approximately 231,352 sq m. From the strength of the business sector in Futian, the rental decrease experienced was of a smaller range than that in Longgang.

Occupancy rate

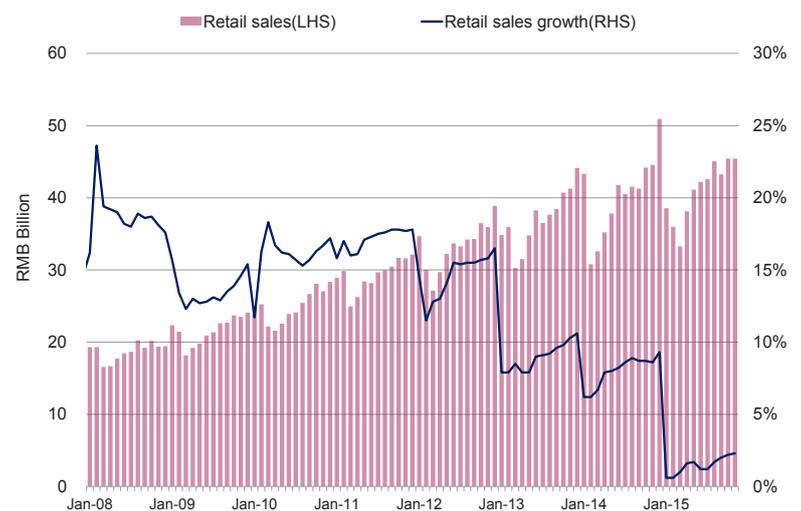
In Q4/2015, city-wide occupancy rates stood at 95.1%, down 1.6 percentage points (ppts) QoQ.

Occupancy rates in the Futian district reached 92.3%, down 4.2 ppts QoQ. The occupancy rate in

City Plaza increased dramatically, pushing up the overall occupancy rate in Futian. A number of new projects were launched onto the market in Q4/2015, resulting in a loss of tenants which slightly impacted the vacancy rates in some of the shopping malls. The mall in Longhua was in its soft opening period, thus its lower occupancy rate and the high proportion of lifestyle stores.

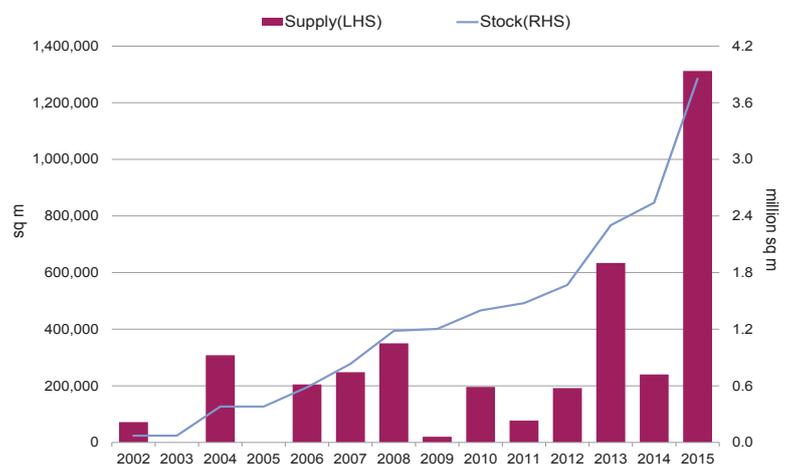
High-end retail lifestyle stores account for 39.3% of occupied space in Shenzhen, up from 37.8% in

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



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2002–Q4/2015**



Source: Savills Research

Q3/2015. The percentage of lifestyle stores in the Longhua district was larger than those in other districts. Except for Baoan, other districts all witnessed slight decreases in the proportion of lifestyle stores.

Project information

9 Square Shenzhen, located east on Huaifu road and south on Shennan Boulevard, is part of AVIC City, an 800,000 sq m HOPSCA project developed by AVIC Real Estate.

The retail area of 9 Square Shenzhen is 180,000 sq m. The mall opened at the end of December with approximately 90% of stores occupied.

Market outlook

To satisfy the demand for the retail projects, 14 new shopping malls will be launched in 2016, adding 2.03 million sq m to the market and pushing stock up 52.6% to 5.88 million sq m. The new projects will be predominantly in the Futian,

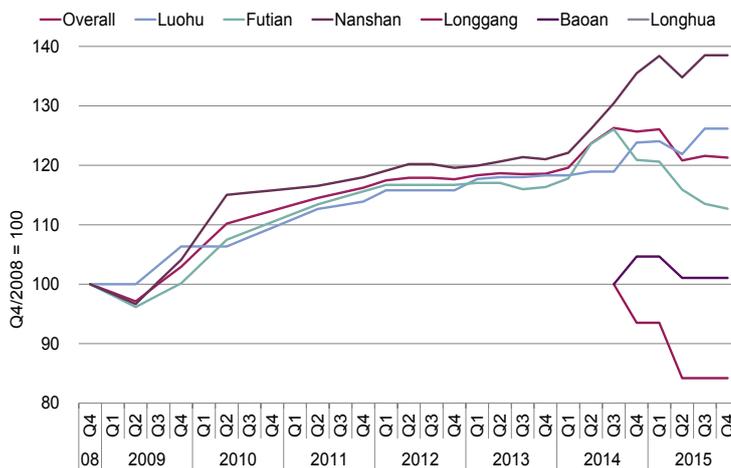
Nanshan, Baoan and Longhua districts.

The Longhua district has seen a large amount of retail space added to the market in 2015, including the largest shopping mall in Shenzhen, MH Mall. This phenomenon is set to continue in 2016. New supply in the Longhua district was larger than that in other districts. Among the new projects to be launched onto the market, China Horoy with retail GFA of 360,000 sq m, and Tonghe Mega Mall, with a retail GFA of more than 200,000 sq m, are both located in Longhua. This will increase the retail stock of Longhua significantly, becoming the largest in the non-central area. As a result, the retail stock in Longhua may even surpass that of Nanshan.

The swift development of the non-central prime retail market will place pressure on shopping malls in the central area, forcing the process of adjustment and enhancement. Meanwhile, the high-end shopping malls in non-central areas will stimulate the market in suburban areas and/or surrounding cities, bringing an influx of consumers to the Shenzhen market.

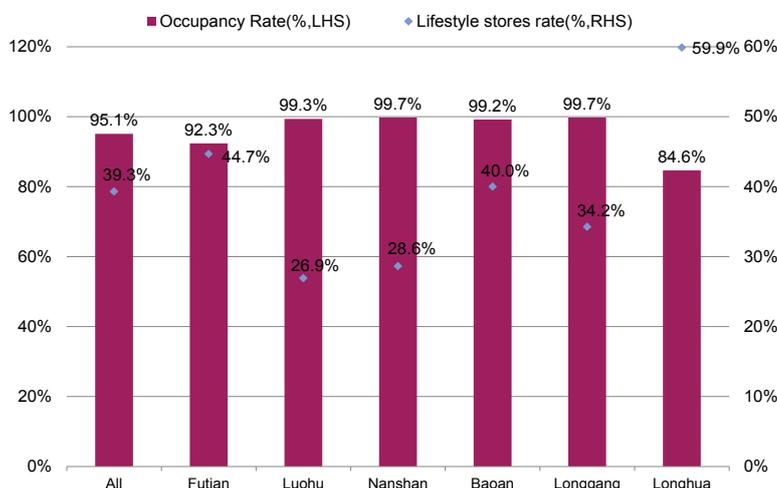
Online shopping has become a lifestyle for modern citizens. As e-commerce develops, it puts pressure onto physical retailers. To remain competitive, owners are adjusting their store concepts by increasing the proportion of lifestyle stores and organising various events and activities in shopping malls to retain and attract customers. Some retailers are even exploring new profitable channels by combining the physical store with an online shopping platform. For example, HOKO by Chow Tai Fook has developed by relying on these ideologies. Although e-commerce impacts negatively on the physical retail market by reducing footfall, the development and revolution of the prime retail market are in turn inspired by it. ■

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



Source: Savills Research

GRAPH 4 Occupancy rates and proportion of life style stores by districts, Q4/2015



Source: Savills Research

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TABLE 1
9 Square Shenzhen

Location	Futian district	
Owner	AVIC Real Estate	
Handover date	24/12/2015	
Office GFA	180,000 sq m	
No. of storeys	B1-6F	

Source: Savills China Research

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