

Briefing Retail sector

August 2017



Image: Holiday World, Pingshan District

SUMMARY

New shopping centres are adopting ‘lifestyle first’ strategies. Operators are looking to increase footfall by introducing renowned restaurants and delivering a better shopping experience to the local community.

■ Retail sales totalled RMB226.5 billion in the first five months of 2017, up 9.2% year-on-year (YoY).

■ Six new shopping malls, located in Luohu, Nanshan, Bao’an, Longgang and Pingshan entered the market, adding 487,000 sq m in Q2/2017, an increase of 11% quarter-on-quarter (QoQ) to 4.73 million sq m.

■ Citywide occupancy rates decreased by 1 percentage point (ppt) QoQ to 93.8% in Q2/2017, while the percentage of lifestyle

stores decreased by 0.6 of a ppt QoQ to 38.2%.

■ First-floor prime shopping mall rents dropped 0.4% QoQ in Q2/2017, to an average of RMB844 per sq m per month, up 7.7% YoY.

■ Five high-end shopping malls are expected to launch in Q3/2017, pushing up total stock to 5.4 million sq m.

■ Many new shopping malls hope to increase footfall and enhance reputation by targeting a more diverse and family-friendly shopping experience.

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 “Only one-third of forecast supply entered the market in the first half of the year. With greater supply slated for the second half, citywide rents and occupancy rates may endure some downward pressure.”
 Robert Ritacca, Savills Research

Market overview

Citywide retail sales growth was both buoyant and consistent for the first five months of the year. Retail sales totalled RMB226.5 billion, an increase of 9.2% YoY. Shenzhen retail sales growth outperformed other first-tier cities in China.

Supply

Six new projects debuted in Q2/2017, pushing up stock 11% to 4.73 million sq m. Bao'an and Nanshan received 31% and 18% of the new supply, respectively.

Occupancy rates

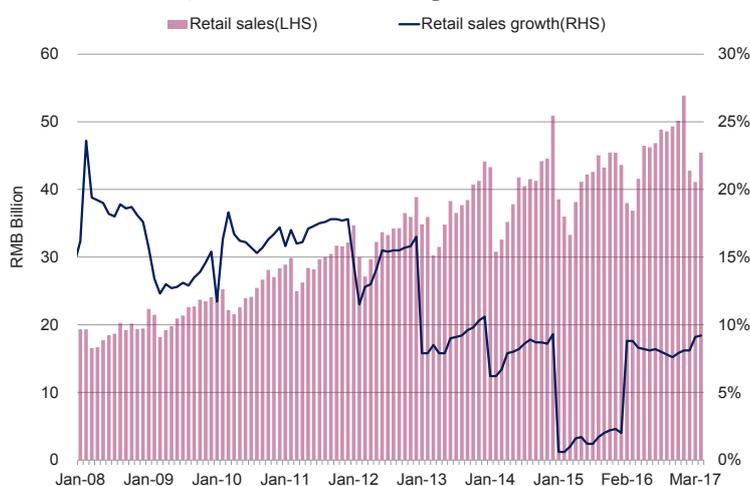
New retail space drove down citywide occupancy rates 1.0 ppt QoQ to 93.8% in Q2/2017, but occupancy rates still increased 1.7% YoY. Among the mature retail areas, Luohu outperformed both Nanshan and Futian, as its occupancy rate climbed to 99.7%. Among the emerging areas, Longgang registered the highest occupancy rate at 99.5%, while Longhua's occupancy rate increased 16.4% YoY.

Longhua has a dense residential population, relatively inexpensive rental space, and is directly adjacent to Futian. These factors are encouraging some retailers to "substitute" the higher-priced position of Futian for the more economical conditions and favourable demographics of Longhua. Longhua benefitted from significant YoY occupancy growth, while both Bao'an and Longgang witnessed YoY occupancy deceleration.

Lifestyle stores in Shenzhen

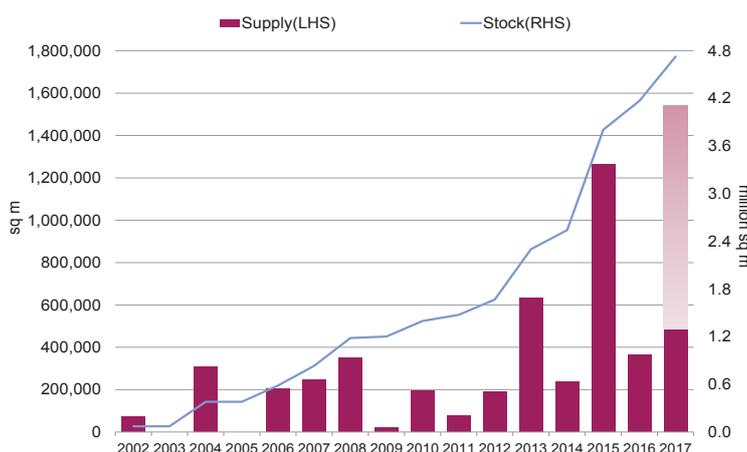
The aggregate proportion of lifestyle stores in shopping malls decreased 0.6 of a ppt QoQ to 38.2%, but increased 2.8 ppts YoY in Q2/2017. Longhua's lifestyle stores proportion ranked first amongst all districts, at 52.4%. Longhua is a relatively new residential area with a dense population and no prior history of large retail offerings in previous years. Thus, operators have more flexibility to strategically balance

GRAPH 1 Retail sales, Jan 2008–May 2017



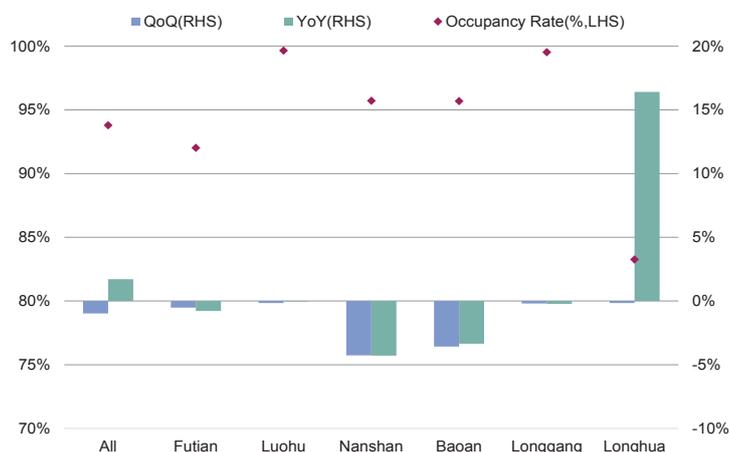
Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2 Shopping mall supply and stock, 2002–2017



Source: Savills Research

GRAPH 3 Occupancy rate by district, Q2/2017



Source: Savills Research

lifestyle stores and other F&B options, which could increase daily footfall and encourage more frequent discretionary spending. Lifestyle stores are also the main tenants in Luohu; the proportion of lifestyle stores grew by 1.0 ppt QoQ and 7.9 ppts YoY respectively.

Rents

Prime first-floor shopping mall rents decreased 0.4% QoQ in Q2/2017, to average RMB844 per sq m per month, but increased 7.7% YoY. With the exception of Bao'an and Longgang, rents in other districts marginally declined in Q2/2017.

Luohu rents remained the highest among all districts, averaging RMB1,355 per sq m per month, down 1.5% QoQ. The Bao'an district witnessed the greatest rental increase in Q2/2017, climbing 11.1% QoQ to RMB775.0 per sq m per month.

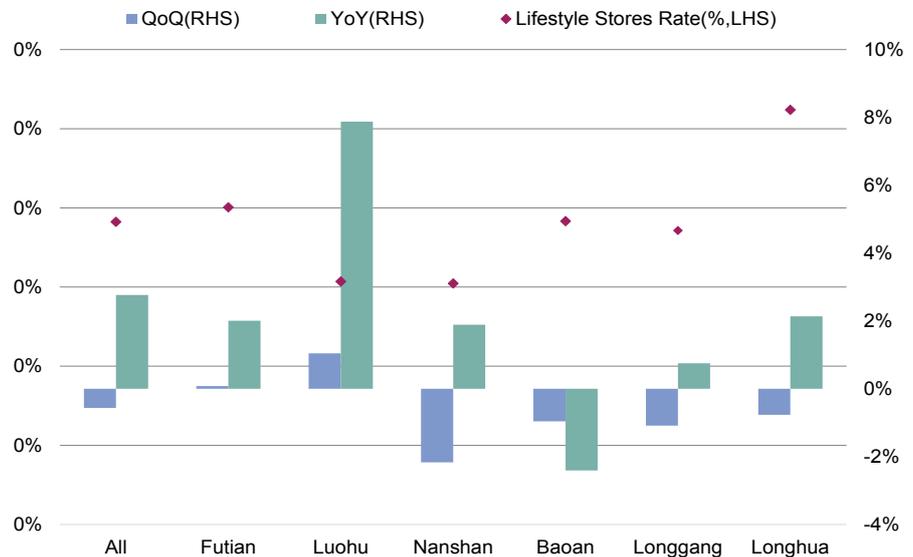
Although Longhua rents fell 4.9% QoQ in Q2/2017, rents increased 22% YoY, outperforming other districts and showing positive retail development trends. Operators in Longhua are providing a range of lifestyle attractions and food and beverage (F&B) choices to diversify the shopper experience and drive footfall. A considerable amount of new available space entered the Bao'an retail market in Q2/2017, pushing down occupancy rates QoQ and YoY. However, the Bao'an rental index continued to rise, indicating higher prices are most likely due to future demand expectations from the neighbouring Qianhai area.

Market outlook

Five projects are expected to launch in the third quarter of 2017, pushing prime retail supply to historical highs. The Bao'an and Nanshan districts will be the primary recipients of new supply, facilitating the growth of these emerging retail areas. This will be aided by the progress of Qianhai's office market (in Nanshan). The Qianhai area is slated to support 600,000+ new jobs in its central business district, which will

GRAPH 4

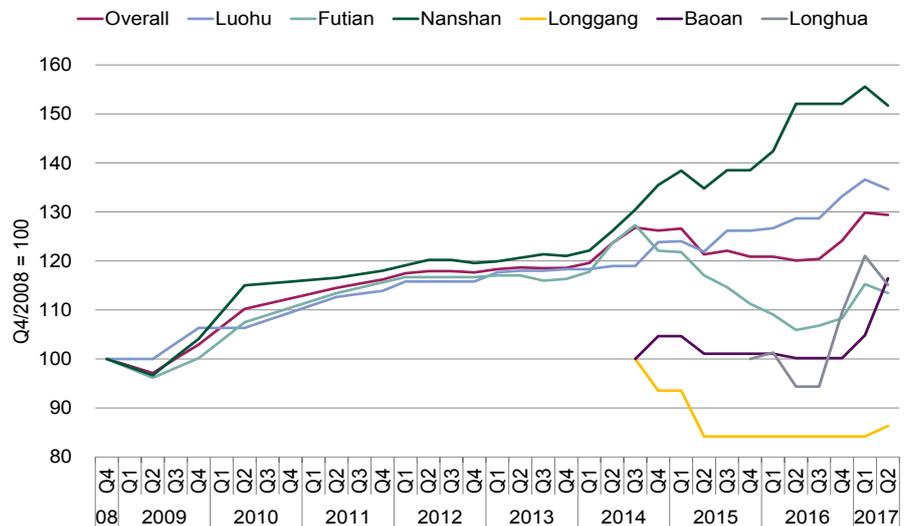
Proportion of lifestyle stores by district, Q2/2017



Source: Savills Research

GRAPH 5

Shopping mall rental indices, Q4/2008–Q2/2017



Source: Savills Research

likely correlate to locational retail synergy and positive performance in neighbouring Bao'an.

Locational synergies aside, significant new supply across the city will put pressure on occupancy, while further intensifying competition for operators. Shopping mall operators must continue to reinvent strategies

that positively influence footfall, and create environments that foster prolonged visits to the malls. This would include strategic tenant mixes, unique and diversified F&B options, and innovative family-centric mall attractions. ■

Project information

Raffles City

Raffles City is a shopping mall and part of a mixed-use project developed by the Singapore-based CapitaLand Group, with retail GFA of 88,000 sq m. In addition to the shopping mall, the mixed-use project consists of Grade A offices, Ascott serviced apartments, residential housing and SOHO.

The shopping mall connects The Shenzhen-Hong Kong Financial Services Corporation Zone and Financial Headquarters Centre. The mall is also located on the city's primary bus route.

As the first CapitaLand project developed in South China, Raffles City introduces many unique brands that are new to Shenzhen customers, including one-star Michelin restaurant Putien, Hot Iron restaurant, and PALACE Cinema, as well as numerous popular fashion brands, bookstores, food & beverage and children-related retailers.

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|-----------------------|---|
| Project | Raffles City |
| |  |
| Location | Nanshan district |
| Owner | CapitaLand Group |
| Handover date | Q2/2017 |
| Retail GFA | 88,000 sq m |
| No. of storeys | B1-L5 |

Source: Savills Research

Please contact us for further information

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