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Savills World Research
Shenzhen

Briefing
Retail sector

November 2017

Image: Shenzhen the MixC World

SUMMARY

Several projects in both central and non-central areas are expected to launch in the fourth quarter. Retail supply and stock will significantly rise throughout Shenzhen.

- Two new projects launched in Q3/2017, adding 288,000 sq m in Q3/2017, increasing total stock by 6% to approximately 5 million sq m.
- City-wide vacancy rates decreased by 3.6 percentage points (ppts) to 2.7% in Q3/2017 with Nanshan, Bao'an and Longgang achieving vacancy rates lower than 1%.
- Prime shopping mall first-floor rents rose 0.4% QoQ in Q3/2017, to RMB849.5 per sq m per month. Rents continued to rise in both Bao'an and Longhua districts, up 16.2% and 18% YoY respectively.
- Seven new projects are expected to launch in Q4/2017, adding a total of 1,365,000 sq m to the current market. Longhua will receive 47% of new projects, with the rest to launch in Futian, Bao'an and Longgang districts.

"Take-up has driven up rent and occupancy rates in core retail areas, with Nanshan showing especially strong retail demand." Robert Ritacca, Savills Research

Market Overview

City-wide retail sales growth remained strong and stable for the first eight months of the year. Shenzhen retail sales growth continued to outperform other first-tier cities. Retail sales totalled RMB381.4 billion, an increase of 9.2% YoY.

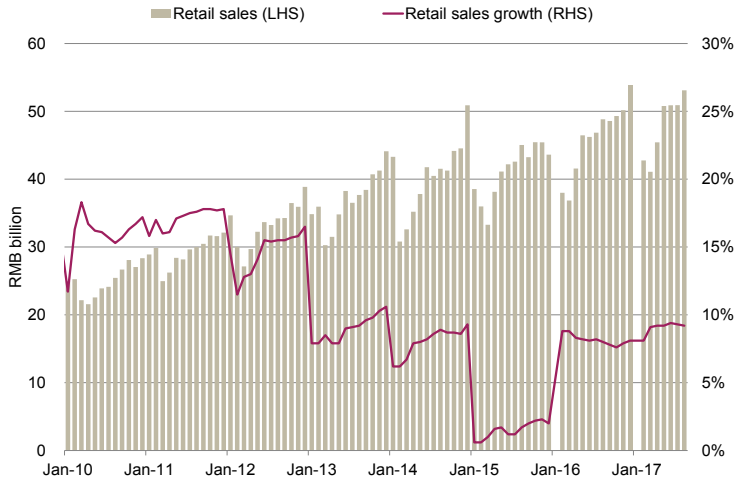
Supply and Stock

Two new projects debuted in Q3/2017, adding 288,000 sq m to the market, pushing up total stock by 6% to 5.015 million sq m.

The 230,000 sq m MixC World (万象天地), located in Nanshan, debuted during the quarter. Indoor and on-street shopping spaces are designed to create a more vibrant shopping environment and to attract consumers with different preferences.

GRAPH 1

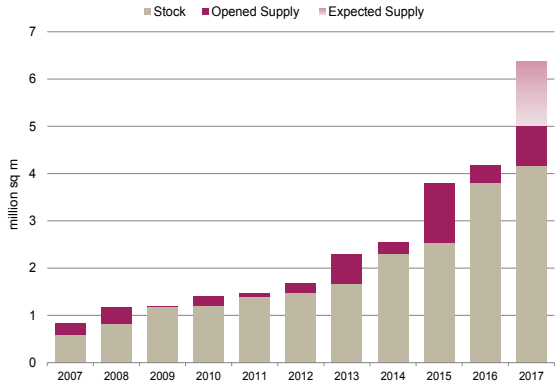
Retail Sales, Jan 2010–Aug 2017



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2

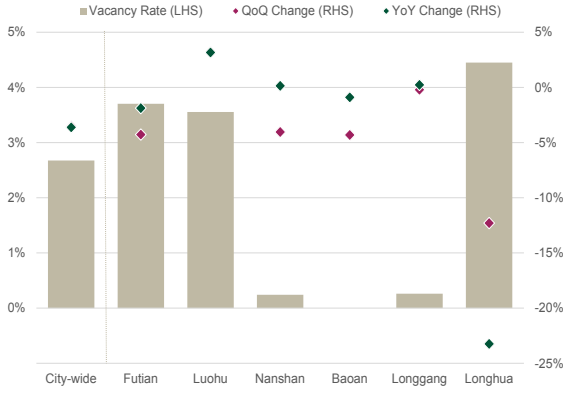
Shopping Mall Supply and Stock, 2007–Q3/2017



Source: Savills Research

GRAPH 3

Vacancy Rates by Districts, Q3/2017



Source: Savills Research

The shopping mall also aims to attract families by having a 2,000 sq m indoor children's playground. The designated 24-hour international food street is another approach to increase both footfall and average time spent in the mall.

Additionally, MixC World sought to bring unique retailers and brands to Shenzhen – in total, 37 brands were introduced to Shenzhen for the first time in MixC, to include: Lululemon, Champion, and Heart Made Factory.

Another project debuting this quarter was the 48,000 sq m Kaisa Plaza, located in Dapeng district.

Vacancy Rates

Shenzhen's prime retail occupancy performed well in Q3/2017. City-wide vacancy rates stood at 2.7%, a decrease of 3.6 ppts QoQ and YoY. Strong demand was driven by healthy market activity across the following districts: Futian, Nanshan, Bao'an, Longhua, and Longgang.

The Bao'an district is a fast emerging retail area. Bao'an's dense population and convenient location to Qianhai are seen as competitive advantages for tenants, who are aggressively occupying space in an attempt to catch the early retail market opportunities. Consequently, Bao'an's prime retail market recorded unblemished occupancy rates at 100%.

Longhua is also a quickly developing retail sub-market, to the north of Futian. It recorded the most improved occupancy rate in the city, as vacancy dropped 12.3 ppts QoQ and 23.2 ppts YoY to 4.4%.

Retail Trends

Shenzhen residents are some of the youngest and most savvy retail consumers in China. They are amongst the highest percentage of Chinese that look for more sophisticated ways to make a purchase, such as online purchasing and mobile shopping. As such, the Shenzhen prime retail market should retain fewer pure brick-and-mortar retail stores, and a greater number of lifestyle and experiential stores that appeal to the consumers' broader service-based demands.

Given the pressure from online and mobile shopping, mall developers are trying to devise ways to attract footfall and also promote discretionary impulse purchasing. These trends are seen in the newest Shenzhen malls; developers are introducing more unique brands that are new, not only to Shenzhen, but also South China. New and unique brands/experiences should deliver greater footfall and positively affect impulse buying.

Additionally, developers are paying more attention to the quality and design of the malls. The concept

of "open malls" are gradually attracting consumers' attention. Several buildings, each with different decoration, have their own themed shopping park. An example of this would be the aforementioned MixC World mall.

Finally, the Shenzhen government is supporting more urban regeneration outside of central city locations. Thus, developers are looking to increase their market share in various sub-markets, and are keenly interested in expanding to areas such as Bao'an and Longhua. These suburban projects will primarily aim to service the nearby population. As the city's development and population expands outward, these types of suburban malls will look to attract daily footfall with greater amounts of non-fashion, experiential stores.

Rents

City-wide prime first-floor rents increased 0.4% QoQ in Q3/2017, to RMB849.5 per sq m per month. In Nanshan's prime shopping mall, first-floor average rents increased 4% QoQ and 3.8% YoY to RM1090 per sq m per month. Futian and Nanshan continue to maintain relatively high demand for retail space. Nanshan had one new mall; MixC World entered the market in Q3/2017, which should continue to impact area rent prices and help alleviate the hot demand for retail space.

Bao'an and Longhua had the two most profound year-on-year rental price increases, rising 16.25% YoY and 18% YoY respectively. Both Bao'an and Longhua are emerging markets with a large population base and high consumer discretionary purchasing power. Despite having the steepest growth rate in Q3/2017, average first floor rents in Longhua is still the lowest at RMB 380 per sq m per month. Longhua is a developing residential and retail district; lower rents should attract and incentivise lifestyle and F&B stores to serve the growing local population.

Market Outlook

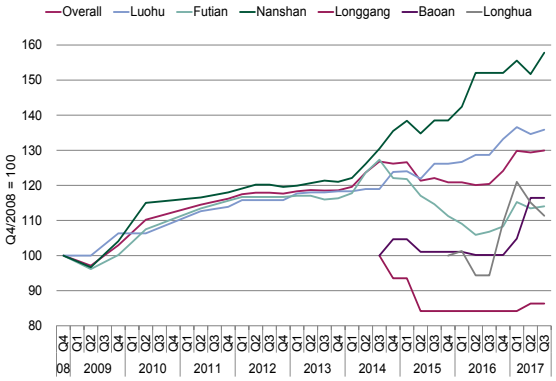
Seven new projects are expected to launch in Q4/2017, adding 1,365,000 sq m to the market. Emerging Longhua district will receive 47% of these new retail projects, with the rest to launch in Futian, Bao'an and Longgang districts.

Together with the opening of the remaining retailers still under construction, MixC World will bring a larger impact to Nanshan's high-end retails market, while also easing the demand from retailers and F&B in the Nanshan district. It should also attract footfall not only from Shenzhen city, but from the entire Guangdong province.

Shopping malls in the centre of the city will continue to offer high-end services, new products, a high quality atmosphere, and an overall unique family experience. Shopping malls in the sub-markets will continue to expand and strategically offer more experiential shops and F&B stores to appeal to the daily tastes of the surrounding area population.

GRAPH 4

Shopping Mall Rental Indices, Q4/2008–Q3/2017



Source: Savills Research

Please contact us for further information

Research

James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Robert Ritacca
Senior Manager
+86755 8828 5241
robert.ritacca@savills.com.cn

Agency

Dorian Zhi
Associate Director
+86755 8828 5720
doriandl.zhi@savills.com.cn

Project & Development Consultancy

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