

Briefing Retail sector

February 2018



Image: UniWalk Centre in Shenzhen Bao'an district central

SUMMARY

Shenzhen's offline and online retail environments continue to evolve. Shenzhen's superior technology and logistics industries will continue to open new and unique paths to consumption.

- Three new projects were launched in Q4/2017, adding 1.01 million sq m to the retail market, increasing total stock by 20% to approximately 6.03 million sq m.

- City-wide occupancy rates increased 0.4 of a percentage point (ppt) QoQ to 97.7%. Nanshan's occupancy rate increased 0.1 of a ppt QoQ to 99.9%. Non-central districts, Bao'an and Longgang, showed solid performances; both

registered occupancy rates of 98.8% in Q4/2017.

- Prime shopping mall first-floor rents slightly decreased by 0.2% QoQ in Q4/2017, to RMB849 per sq m per month.

- Four new projects are expected to launch in Q1/2018, adding a total of 373,000 sq m to the current market. Most of the new supply will be in Futian and Longgang.

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“Shenzhen’s prime retail market continues to expand outward from core to central, to non-central districts. Meanwhile, prime retailers continue to be innovative by introducing new concepts, such as upgraded hassle-free shopping experiences, high-end restaurant/supermarket combinations, and smart check-outs.” Robert Ritacca, Savills Research

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Market Overview

City-wide retail sales growth remained strong through November 2017, increasing 9.3% YoY to RMB544 billion¹.

The much anticipated UniWalk Centre opened in Bao'an with 360,000 sq m GFA, while UniWorld opened in Longhua with 600,000 sq m GFA.

The retail trend continues to expand towards the north and west due to urban planning and city development. Bao'an's total stock increased 4 pts to 19.0%, while Longhua's stock increased 8 pts to 21.0%.

Shenzhen's online and offline (O&O) retail channels continue to evolve, merging services with high technology. The upgraded O&O retail concept will use big data accumulation, artificial intelligence, upgraded logistics channels, and other high-tech improvements to offer a unique way of shopping.

A few examples of Shenzhen's O&O retail innovation include:

1. Alibaba's Hema Supermarket (盒马鲜生), the first in south China, located in Bao'an Yitian Holiday World. In this upgraded hassle-free model, customers may scan products using their smartphone devices, pay and leave the store. Goods ordered online can be delivered to their home/office within 30 minutes.

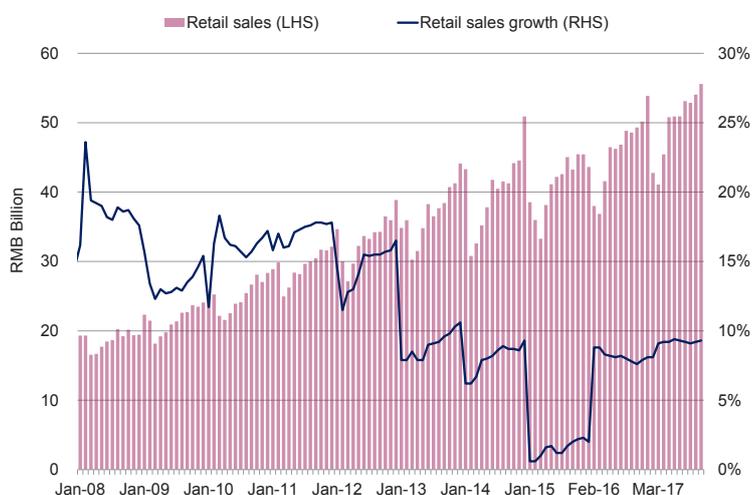
2. Yonghui Super Species, introduced the "high-end supermarket + fresh-food restaurant" concept. Six of the brand's 24 stores are located in Shenzhen.

3. S.F. Express, the highly innovative logistics company headquartered in Shenzhen, has launched its first convenient vending shelves "丰E足食" in office buildings. The shelves offer similar products to those in convenient stores, such as 7-Eleven.

4. "Xingbianli" (猩便利), is another cashier-less store that opened in Nanshan's Rainbow Well-Go mall. Xingbianli uses technology that

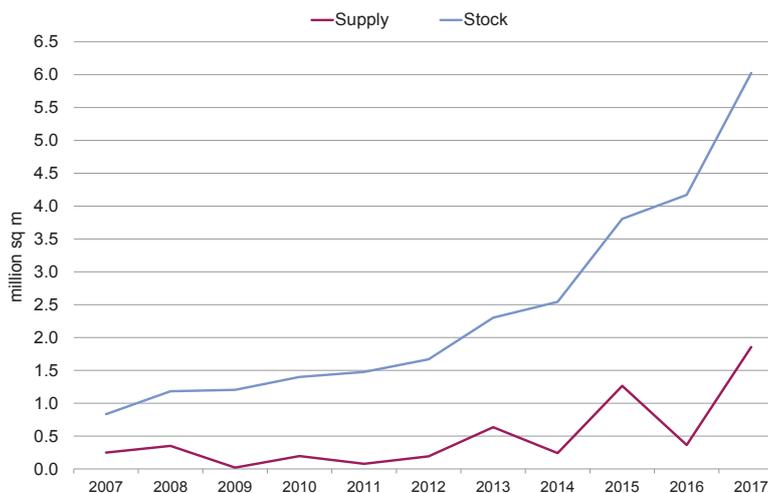
¹ December data not published at the time of data formulation

GRAPH 1 Retail Sales, Jan 2009–Nov 2017



Source: Shenzhen Statistics Bureau, Savills Research
Note: Monthly data in Jan-16 and Jan-17 were not released.

GRAPH 2 Shenzhen Prime Retail Supply and Stock, 2002–2017



Source: Savills Research

automatically identifies when a product is added to shoppers' carts.

Supply and Stock

Three new projects debuted in Q4/2017: the 360,000 sq m UniWalk Centre in Bao'an; UniWorld in Longhua with 600,000 sq m GFA; and Longchen Vankeli in Longgang with 500,000 sq m GFA. These three malls added 1.01 million sq m to the retail market, pushing up total stock by 20% to 6.03 million sq m. The 1.86 million sq m of new retail space supplied in 2017 marked a record year for Shenzhen. Although

new supply can be seen in several areas across the city, prime retail continues to gain a larger market share in non-central districts; over 74% of total supply in 2017 was launched in non-central districts, with Longhua receiving 32% and Bao'an receiving 28% of the total.

Occupancy and Proportion of Experiential Retailers

Despite receiving the largest amount of supply on record, Shenzhen's prime retail market continued to perform well in Q4/2017 in terms

of occupancy. City-wide prime occupancy rates were 97.7% at the end of Q4/2017, increasing 0.4 of a ppt QoQ and 1.9 YoY, representing record occupancy rates in Shenzhen. Shenzhen's experiential retailer proportion increased 0.2 of a ppt QoQ to 41.5%, up 1.9 ppts YoY.

Nanshan's 99.9% prime retail occupancy rate ranked first in the city, up 0.1 of a ppt YoY. Nanshan's experiential retailer proportion also increased 1.6 ppts QoQ and 13.5 ppts YoY to 46.2%. Retail stores in Nanshan have good brand-

positioning and customised high-end services that continue to attract customers and daily footfall.

Mature and centrally-located commercial and retail districts Luohu and Futian, both maintained high occupancy rates. However, both districts experiential retailer proportions slightly decreased. Futian experiential retailers' proportion slid by 1.6 ppts QoQ to 46.2%, Luohu also decreased by 1 ppt QoQ to 38%. Thus, it is common to see some quarterly tenant adjustments to diversify mall offerings. Luohu is

a very competitive retail market. Its most famous mall, MixC, is one of the only malls in Shenzhen to host a wide variety of world-class fashion brands. Thus, experiential retailers will tend to fluctuate with the overall consumer demand for product offerings in high-end retail stores.

Retail space in two non-central districts, Bao'an and Longgang, are almost fully occupied (99.8% occupancy). This is predominantly due to strong consumption demand and the solid performance of experiential retailers. Bao'an's Haiya Mega Mall redesigned its B2 floor, thus Bao'an's experiential retailer proportion increased by 2.4 ppts to 44.3%. In addition, Bao'an's newest mall, UniWalk, recently launched with a higher-than-city-average, 51.7% experiential retailer proportion. Malls in these emerging districts have large residential areas nearby. Thus, they will continue to increase experiential retailer proportions to increase footfall and improve consumer loyalty.

Rents

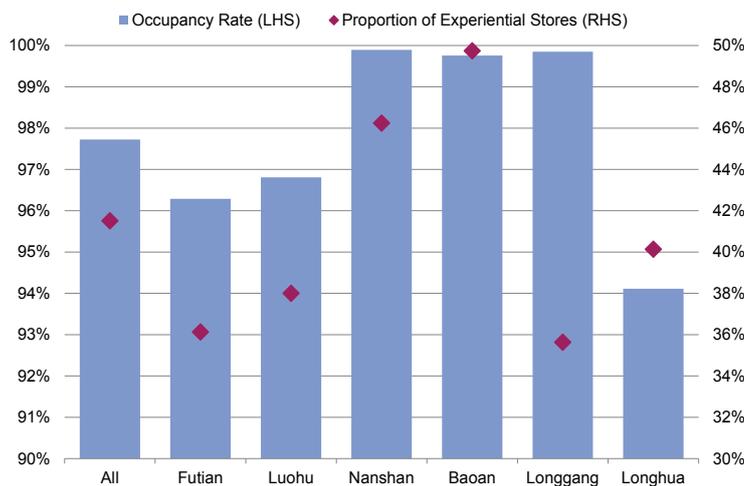
City-wide prime first-floor rents increased 0.2% QoQ in Q4/2017, to RMB839.0 per sq m per month. Bao'an prime retail rents decreased 8.0% QoQ to RMB675 per sq m per month. The rent decline was primarily driven by retail format and tenant-mix adjustments. For example, Haiya Mega Mall redesigned its entire B2 floor. Retail space on the B2 floor will mostly be leased to experiential retailers (including F&B stores), which consequently pay lower monthly rents.

Although Longhua's average first floor rents increased 5.8% QoQ, it was still the lowest-priced retail district in Shenzhen, at approximately RMB400 per sq m per month. Longhua is a developing residential and retail district — lower rents should attract experiential retailers to serve the growing local population.

Market Outlook

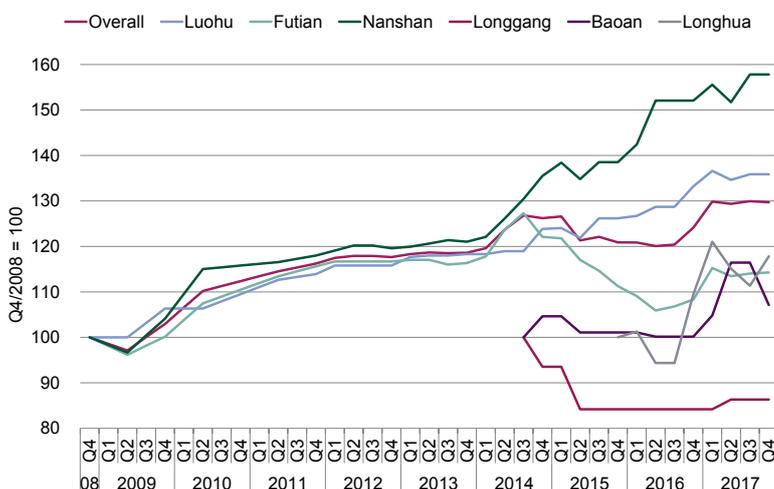
Four new projects are expected to launch in Q1/2018, adding 373,000 sq m to Shenzhen's retail market. These projects are: The Ping An Financial Centre (PAFC) Mall Phase

GRAPH 3 Shenzhen Prime Retail's Occupancy and Proportion of Experiential Stores, Q4/2017



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 4 Shopping Mall Rental Indices, Q4/2008–Q4/2017



Source: Savills Research

Project Focus

UniWalk Centre

The 360,000 sq m UniWalk Centre, located in central Bao'an, was developed by the Horoy Group. The mall features more than 400 brands, 100 F&B stores and 15 anchor stores, including Ole, a high-end supermarket; the well-known brand - Star of Canton Restaurant, the first ZARA HOME store in Shenzhen, and ATTOS, a duty-free luxury store.



Location	Bao'an district
Owner	Horoy Group
Handover date	Q4/2017
Retail GFA	360,000 sq m
No. of storeys	B3 - L5 Floor

Source: Savills Research

1 and UpperHill, both in Futian, and the HNA City Plaza and Phoenix Shopping Mall, both in Longgang.

Futian will receive a majority of the supply in 2018, and will continue to add to the dynamic of Shenzhen's prime retail market development. Other sub-markets will also continue to grow, bringing more supply to Shenzhen's retail market. Influx supply and the continuous launch of new projects in 2018 will cause some pricing and occupancy pressures in the near-term. However, Shenzhen is still a growing city, from both retail and population perspectives — the population is expected to grow by two to three million people in just two years. Thus, the increasing population growth in various sub-markets, and a greater propensity to consume should balance out the burgeoning supply in the mid- and long-term. ■

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