

Briefing Retail sector

May 2018



Image: Futian District Upper-Hills

SUMMARY

Rising consumer confidence and improving sales performance gave retailers renewed confidence in the outlook for the market and resulted in occupancy rates improving for the third consecutive quarter.

- Two new projects were launched in Q1/2018, adding 237,000 sq m to the retail market and increasing total stock by 3.9% to 6.3 million sq m.
- City-wide average first-floor rents fell by 0.2% quarter-on-quarter (QoQ) to RMB894.4 per sq m per month, down 0.3% year-on-year (YoY).
- City-wide prime retail occupancy rates increased 0.5 of a percentage point (ppt) to 98.2%, whilst experiential retailers occupied 42.9% of the total retail market share.

“Landlords adjusted their tenant mixes and positioning to better target changing consumer tastes while also spending greater effort to differentiate themselves from their competitors through an emphasis on branding or ‘themes’, such as open air retail concepts as well as online to offline services.” Woody Lam, Savills Southern China

Market overview

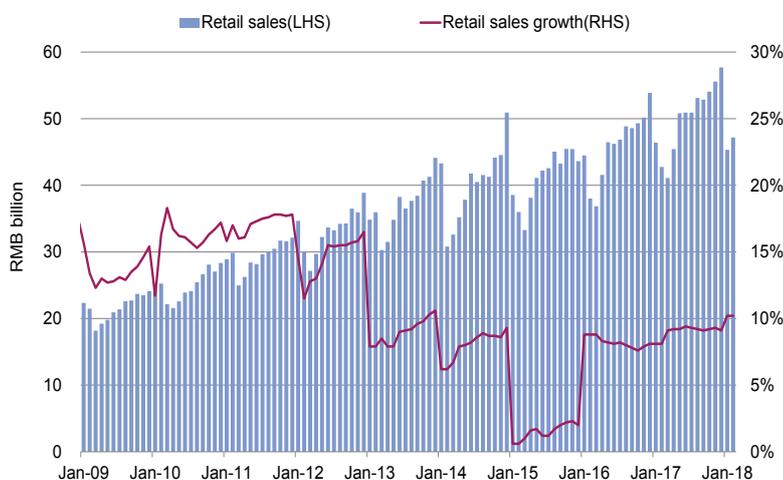
Retail sales totalled RMB92.5 billion in the first two months of 2018 up 10.2% YoY.

Two new projects, the 167,000 sq m UpperHills Shopping Mall and 70,000 sq m HNA City Plaza, were launched onto the market in Q1/2018.

The Shenzhen retail market performed well in the first quarter, with the city-wide occupancy rate increasing 0.5 of a ppt QoQ to 98.2%. The proportion of experiential stores across the city remained stable, with slight increments seen in Futian and Luohu.

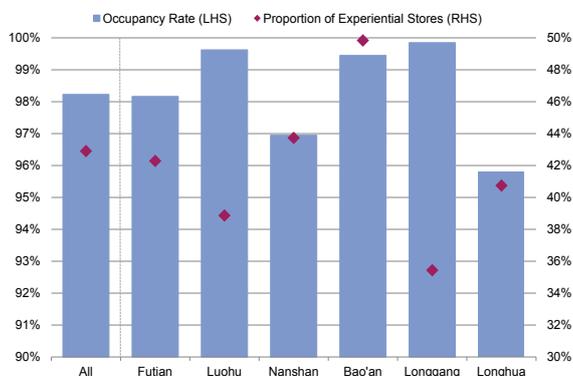
The recovery in the brick-and-mortar retail market continued to strengthen in line with growing consumer confidence, thus giving retailers a positive outlook for the remainder of the year. Retailers and mall operators continue to adopt various

GRAPH 1 Retail sales, Jan 2009–Feb 2018



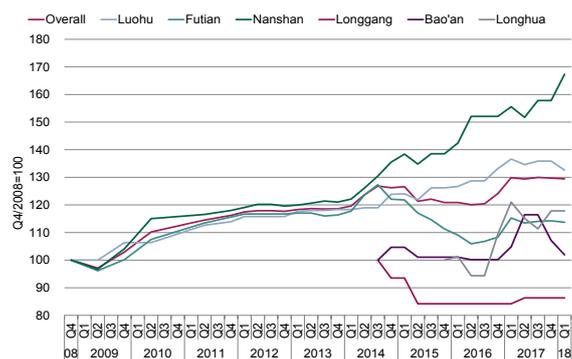
Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2 Shenzhen prime retail's occupancy and proportion of experiential stores, Q1/2018



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 4 Shopping mall rental indices, Q4/2008–Q1/2018



Source: Savills Research

strategies to improve revenues and enhance operations. These moves include creating themed retail, developing small scale alfresco retail components, and incorporating online to offline services for shoppers.

Supply and stock

The opening of UpperHills Shopping Mall and HNA City Plaza added 237,000 sq m to the retail market, bringing city-wide stock to 6.3 million sq m.

An additional 1.1 million sq m is expected to launch in the remainder of 2018, with an increasing portion of that stock located in Longgang. The new space will be positioned at the higher-end of the market and target the rapidly growing and increasingly affluent population.

Occupancy and proportion of experiential retailers

The Shenzhen retail market performed well in the first quarter, with the city-wide occupancy rate increasing 0.5 of a ppt QoQ to 98.2%. Luohu saw the greatest improvements in occupancy rates, up 2.8 ppts QoQ. The proportion of experiential stores across the city remained stable, with slight increments seen in Futian and Luohu.

Rents

Average first-floor rents fell 0.2% QoQ to RMB894.4 per sq m per month down 0.3% YoY.

Nanshan has continued to outperform the wider market with average first-floor rents increasing by 6% QoQ to RMB933.3 per sq m per month, up 7.6% YoY. A number of malls, while primarily servicing the local residential community, have also positioned themselves to attract a younger more spendthrift demographic by introducing trendy F&B stores and popular fashion brands. The shopping malls are also utilising creative landscaping to attract consumers from further afield at the weekend or for social events in the evenings.

Market outlook

Only one project, the MixC One, is expected to launch in Q2/2018. The 120,000 sq m shopping mall will serve mid-to-high end consumers in Longgang district.

Moving into the remainder of 2018, the consumption needs and wants of consumers will continue to spur retailers to upgrade with more high-quality merchandise and services. New retail, with its aim of enhancing consumer experience, will therefore continue its momentum.

As part of the government's urban planning and economic development strategy, new supply will be predominantly located in focus areas of urban regeneration such as the Futian district, and the north-eastern part of the city around Longgang district. ■

Project Focus

Shenzhen UpperHills

Shenzhen UpperHills is a large scale mixed-use development to the north of Futian CBD and connects two major parks, namely Lotus Hill Park to the southwest and Beacon Hill Park to the northeast. The project is situated on a plot with a site area of 121,000 sq m and has a GFA of 1.2 million sq m. Aside from the 167,000 sq m retail component, the project also includes 170,000 sq m of high-end residences, 330,000 sq m of office space, 110,000 sq m of loft space and a Mandarin Oriental hotel.

The retail component provides a variety of shopping experiences, including high-end boutiques, a department store, and a small-scale shopping village. UpperHills also focuses on interactive experiences and offers more than a hundred brands, including a Muji store and restaurant, Nike Beacon Store, and Shenzhen's first Emperor UA Cinema.



Location	Futian district
Owner	Shum Yip Group Limited
Handover date	Q1/2018
Retail GFA	167,000 sq m

Source: Savills Research

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