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Savills China Research
Shenzhen

Briefing
Retail sector

November 2018

Image: Galaxy World*Coco Park, Longgang

SUMMARY

More established shopping centres have started to adjust and upgrade tenant and brand mixes in Q3/2018.

- Shenzhen's retail sales increased to RMB338.7 billion from Jan to Jul 2018, up 8.4% year-on-year (YoY).
- Two new projects were completed in Q3/2018, adding 200,000 sq m to the market and increasing total stock by 3.1% quarter-on-quarter (QoQ) to 6.6 million sq m.
- The city-wide average occupancy rate edged up by 0.5 of a percentage point (ppt) to 98.6%.
- First-floor average rent decreased to RMB823.7 per sq m per month, down 0.3% QoQ and 2.9% YoY respectively.

"Supported by an ongoing consumption upgrade, many landlords of shopping centres increased the proportion of high-demand categories. As a result, retailers from sports & outdoors, home & lifestyle, and child-related categories showed much stronger appetites for quality retail space in Q3/2018." Carlby Xie, Savills Research

Market overview

Retail sales in Shenzhen grew by 8.4% YoY to RMB338.7 billion in the first seven months of 2018. Two new projects, located in non-prime areas, were launched onto the retail property market in Q3/2018. The city-wide occupancy rate increased slightly. On the back of rising competition between malls to attract tenants, the city-wide average first-floor rent decreased.

Supply and stock

Two projects debuted in Q3/2018, adding a total GFA of 200,000 sq m to the retail market. Consequently, the total retail stock expanded by 3.1% QoQ to 6.6 million sq m. These two new shopping malls are Uniworld Zone A located in Longhua (120,000 sq m) and Galaxy World*Coco Park located in Longgang (80,000 sq m).

Occupancy rate, trade-mix and brand performance

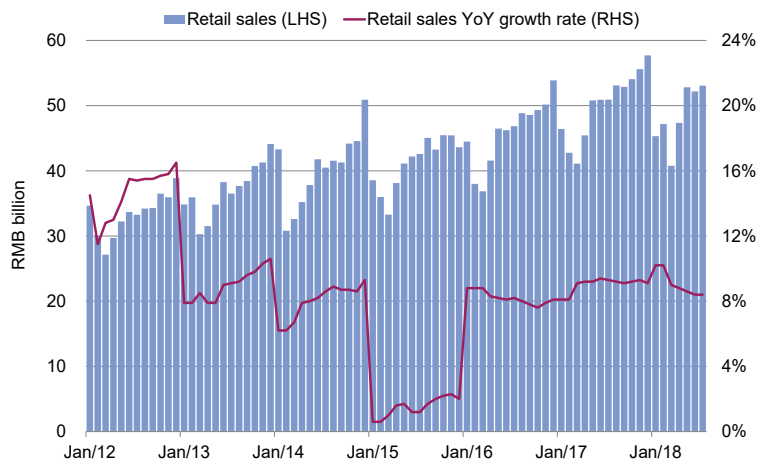
The city-wide occupancy rate increased by 0.5 of a ppt QoQ to 98.6%. Longgang submarket was leading the city with an occupancy rate of 99.9%. By contrast, the occupancy rate in Longhua submarket was the lowest, holding at 94.0%.

Underpinned by ongoing consumer demand for lifestyle upgrades, shopping centres increased the proportion of sports & outdoors and home & lifestyle outlets in Q3/2018. Child-related retailers, targeting young parents, were also preferred. Fashion, F&B and entertainment sectors continued to occupy a significant amount of retail space in prime areas, despite the proportion of these categories decreasing QoQ. On the other hand, non-prime areas showed a stronger appetite for beauty and child-related retailers.

F&B, sports, home & lifestyle brands, and stores with a focus on 'new retail' expanded rapidly during the quarter. The new retail destination, Galaxy World*Coco Park, introduced both YongHui Superstores and its new retail sub-brand Super Species. A popular bookstore, Sisphe, increased its total store number to 14. Ping An Financial Centre (PAFC) Mall introduced a number of mid- to high-end F&B brands, including Xinrongji (新荣记) and Xiding (喜鼎海胆水饺). Underpinned by increased consumer purchasing power, both Purcotton and Nike have commited to large retail spaces in Coastal City to expand their market penetration.

GRAPH 1

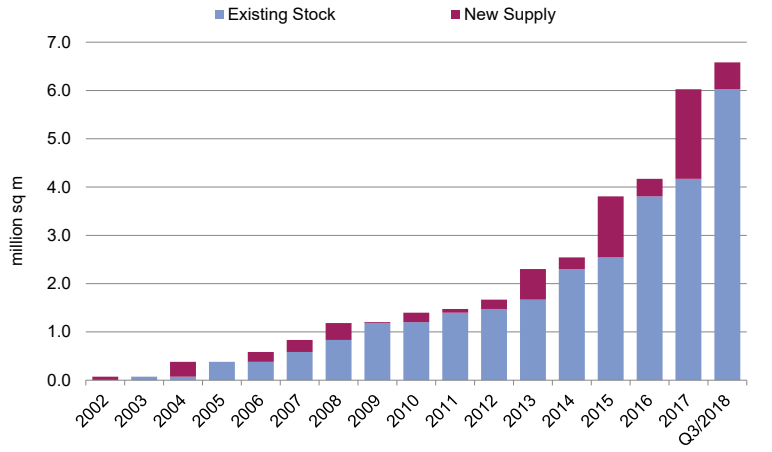
Shenzhen retail sales, Jan 2012 – Jul 2018



Source: Shenzhen Statistics Bureau, Savills Research

GRAPH 2

Shenzhen prime retail market supply and stock, 2002 – Q3/2018



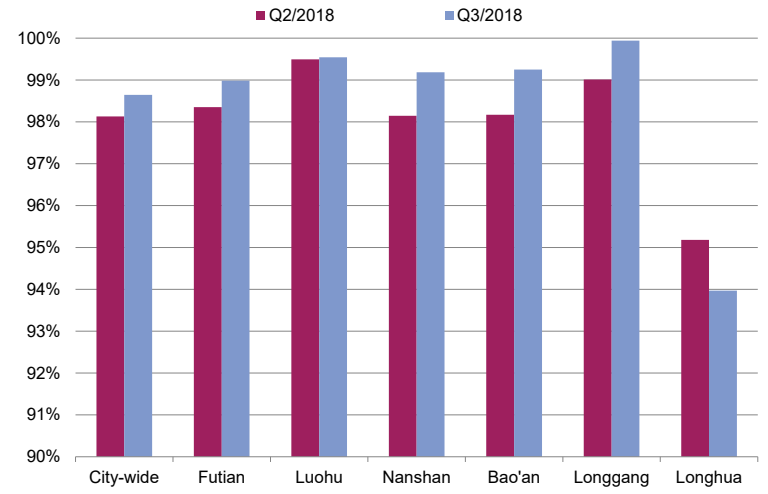
Source: Savills Research

Rents

By the end of Q3/2018, the average first-floor rent decreased to RMB823.7 per sq m per month, down 0.3% QoQ and 2.9% YoY respectively. First-floor rents at shopping malls in Luohu, Nanshan and Longhua remained unchanged from the last quarter. Futian, which is one of Shenzhen's prime retail areas, saw a marginal decrease in its

GRAPH 3

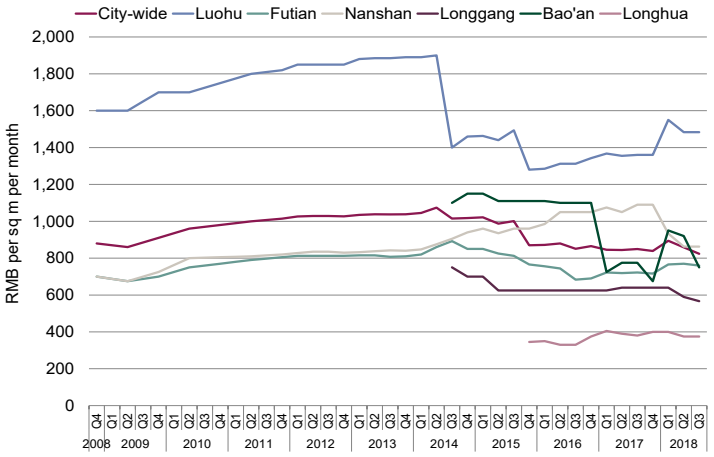
Shenzhen prime retail market occupancy rate, Q3/2018



Source: Savills Research

GRAPH 4

Shenzhen prime retail market rental index, Q4/2008 – Q3/2018



Source: Savills Research

rents in Q3/2018 as ongoing tenant mix adjustments and upgrades at WongTee Plaza and Futian Coco Park continue to impact the district's performance.

Rents at malls in Longgang and Bao'an were relatively weak, mainly due to landlords at relatively new malls in the area asking for lower rents to ensure good occupancy rates. Consequently, rents in both Longgang and Bao'an decreased to RMB566.7 and RMB750.0 per sq m per month, respectively.

Market outlook

The growths in economic and demographic fundamentals, including increasing population and higher disposable income, and a demand for consumption upgrade, is expected to be the backbone for a strong outlook of the Shenzhen retail property market.

Four new projects are scheduled to enter the market in Q4/2018, adding a total combined GFA of approximately 272,000 sq m to the existing stock.

As consumers increasingly look to upgrade their lifestyles, landlords will continue to adjust tenant mixes and increase the proportion of sought-after categories. Thus, it is expected that sports & outdoors, home & lifestyle, and child-related categories will continue to expand at a faster pace compared to other categories. In addition, supermarkets—which are the driving force of 'new retail'— will also expand their footprints. Internet-celebrity retailers such as F&B brands and luxury retailers will also continue to be preferred by landlords.

Tenant mix adjustments and upgrades combined with innovative, thematic branding and marketing campaigns will remain the focus of established shopping malls as they strive to maintain high footfall and revenue. These shopping malls will continue to modernise and be the leaders in Shenzhen's retail property market. Newly-opened shopping malls will have to work hard at innovation to increase occupancy rates and ensure strong rental performances.

Project information

Galaxy World*Coco Park

Galaxy World*Coco Park, located in Longgang Bantian, is one of the largest shopping malls in the area developed by Galaxy Commercial. The mall was launched on 29 September 2018. It will connect to Yabao Station on Shenzhen metro line 10, which is expected to open in 2020.
Galaxy World*Coco Park houses a variety of retailers, including family entertainment, F&B, high-street fashion and sports & outdoor retailers.

Project	Galaxy World*Coco Park
	
Location	Longgang Bantian
Owner	Galaxy Commercial
Handover date	29 September 2018
Retail GFA	80,000 sq m

Source: Savills Research

Please contact us for further information

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