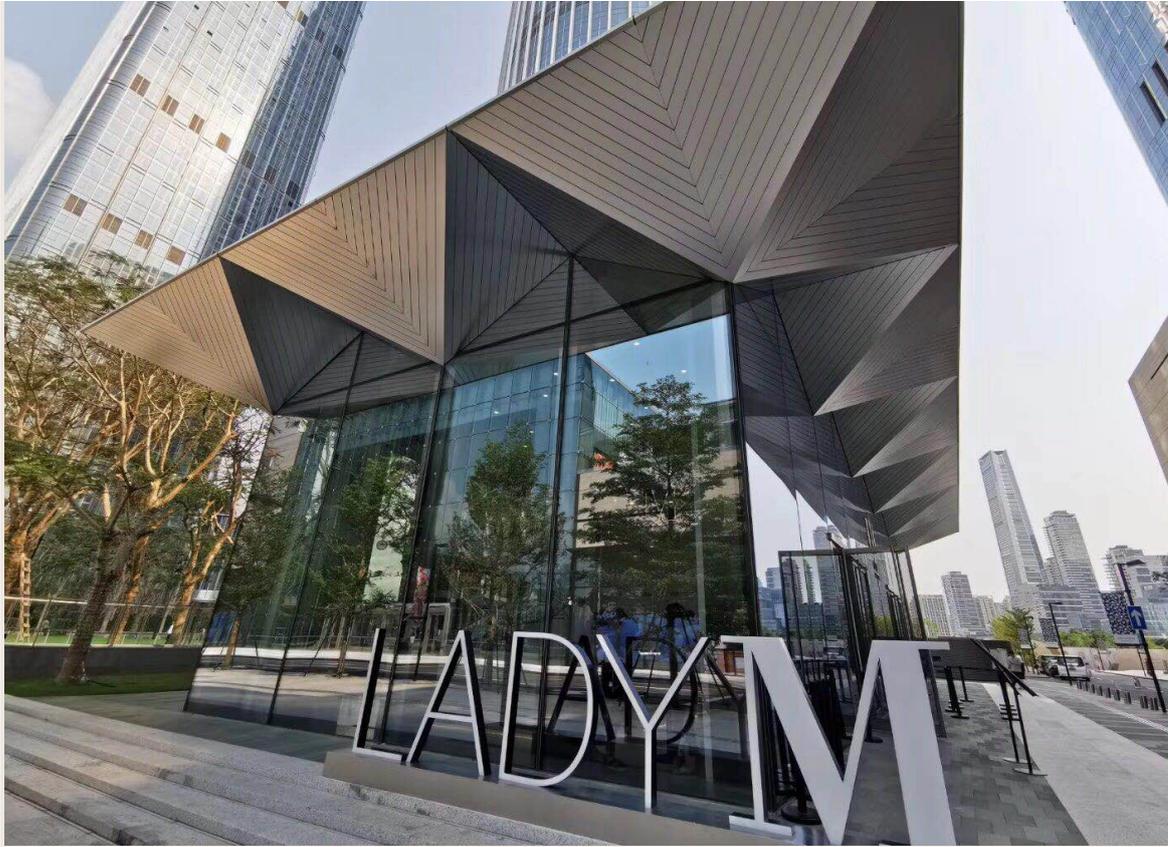


Retail



Retail investment market heats up

The successful conclusion of a significant retail acquisition underlines the positive outlook for the local retail market.

- Shenzhen's retail sales increased to RMB97.6 billion from January to February 2019, up 5.5% year-on-year (YoY).
- The Shenzhen retail property market stock remained at approximately 4.2 million sq m, as no new projects were completed during Q1/2019.
- The city-wide average vacancy rate for the retail property market edged up by 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.2%.
- The demand for prime retail property mainly stemmed from skincare/cosmetics, children & maternity products, automotive, personal care and fitness centre sectors.
- Dior opened its global image concept store in Futian Coco Park, and YSL Beauty, SK-II and Lancome opened stores there as well.
- The average ground-floor rent of the Shenzhen retail property market increased by 0.4% QoQ to RMB757 per sq m per month.
- One Avenue Phase 1, a shopping centre with a total GFA

of approximately 186,000 sq m, is expected to debut in Q2/2019.

- Taking into account the new supply and demand, the city-wide average vacancy rate for the Shenzhen prime retail property market is expected to increase, leading to a slight fall in average rents by the end of 2019.

“One large-scale en bloc sales transaction by an overseas institutional investor was closed during the quarter, demonstrating the attractiveness and significance of the local retail property market to a broad range of investors.”

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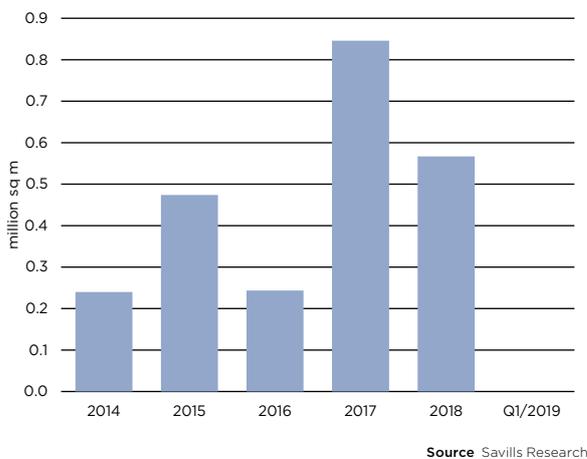
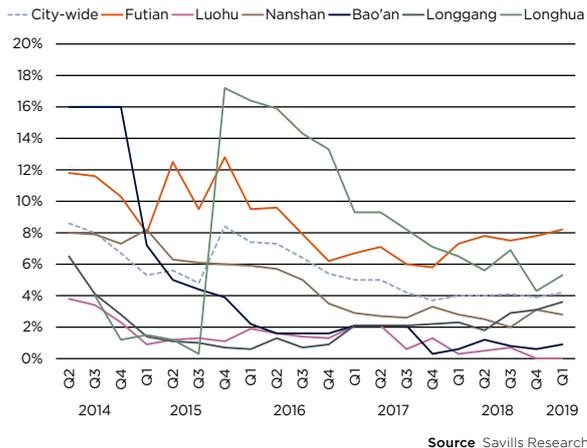
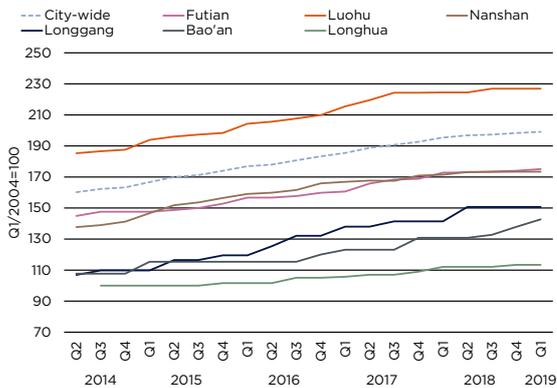
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GRAPH 1: Shenzhen Prime Retail Market Supply and Stock, 2014 to Q1/2019**GRAPH 2: Shenzhen Prime Retail Market Vacancy Rate, Q2/2014 to Q1/2019****GRAPH 3: Shenzhen Prime Retail Market Rental Index, Q2/2014 to Q1/2019****SUPPLY**

Retail sales in Shenzhen grew by 5.5% YoY to RMB97.6 billion by the end of February 2019. The total stock of the Shenzhen retail property market remained at 4.2 million sq m as no new projects were completed during Q1/2019. The prime area (Luohu, Futian and Nanshan) accounted for 62.3% of total stock, while 37.7% of stock was in the non-prime area (Bao'an, Longgang and Longhua).

DEMAND

Overall, retailer sentiment was slightly negative during Q1/2019, which led the city-wide average vacancy rate for the Shenzhen prime retail property market to edge up by 0.3 ppt QoQ to 4.2% by the end of Q1/2019. By retail sector, the demand in the prime retail property market mainly stemmed from skincare/cosmetics, children and maternity products, automotive, personal care and fitness centre sectors. Futian Coco Park introduced a series of mid- to high-end skincare/cosmetics brands, e.g. Dior's global image concept store, YSL Beauty, SK-II, Lancome; Givenchy Kids leased approximately 50 sq m in The MixC; CHJ Automotive rented approximately 201 sq m at KK Mall; Tony & Guy also opened a store in The MixC with approximately 300 sq m retail space; and fitness brand Supermonkey took up approximately 150 sq m in Yitian Holiday Plaza.

RENTS

By the end of Q1/2019, the average ground-floor rent for the Shenzhen prime retail property market increased by 0.4% QoQ to RMB757 per sq m per month. This was supported by the growing rental thresholds of retailers looking for good quality retail space. The rental rates of shopping centres in non-prime areas outperformed those in prime areas, with rental growth 1.2 ppts higher in non-prime areas than prime areas.

INVESTMENT MARKET

The Shenzhen retail property investment market remained attractive to a wide range of international and domestic institutional investors and is supported by the city's strong economic and demographic fundamentals and, more apparently, the continued development

of the Greater Bay Area, with Shenzhen as one of the core cities and primary catalysts. Throughout Q1/2019, the market continued to see a growing inquiry volume and interest for saleable assets, especially those with prime locations and strong upside potential through an asset enhancement initiative programme. In addition, some overseas institutional investors continued to actively invest in the local retail property market through acquiring prime retail properties as part of their strategy and plan capitalising the development trends and opportunity in Shenzhen, as evidenced by the one large-scale en bloc sales transaction concluded during the quarter—the acquisition of Central Walk by Link REIT. According to the official announcement dated on 20 February 2019, Link REIT purchased the shopping centre from Central Walk (Barbados) Company Ltd. for a total consideration of approximately RMB6.6 billion. This was one of the best examples showing Link REIT's strong investment interest and strategic asset distribution by city as part of its property portfolio diversification within China. The transaction also marked a milestone for the development of the local retail property where market upgrade met internationalisation.

MARKET OUTLOOK

Despite the unease brought about by the Sino-US trade war and the continued economic slow-down, the Shenzhen retail property market rang in 2019 on a positive note. This should prop up sustainable demand from some particular sectors such as skincare/cosmetics, contemporary brands, designer labels, fitness centres, automotive and children-focused brands. From a supply perspective, five new shopping centres with a total combined GFA of approximately 540,000 sq m are forecast to launch during the year. In consideration of the new supply and demand size, the city-wide average vacancy rate for the Shenzhen prime retail property market is expected to increase, leading to a slight decrease in average rent by the end of 2019. The investment sector of the Shenzhen retail property market should stay active in the short- to medium-term, underpinned by strengthening asset performance—particularly for the prime areas.

TABLE 1: New Prime Retail Shopping Centre Supply, 2019

PROJECT NAME	SUBMARKET	RETAIL GFA (SQ M)	DEVELOPER
One Avenue Phase 1	Futian	186,000	Excellence & Gemdale Dabaihui
Uniworld Zone B	Longhua	90,000	Horoy
TOWN City	Nanshan	60,000	Shenzhen Metro & Shum Yip
East Link	Luohu	44,000	Shum Yip
Maxland	Bao'an	160,000	Hongfa

Note: The Shenzhen retail database was revamped and updated to reflect market changes during Q1/2019.

Source: Savills Research