

Briefing Retail sector

October 2016



Image: One Park, Huli district

SUMMARY

The current saturation of the retail market has slowed supply. However, the market is expected to capitalise on continued urbanisation and a population influx.

- City-wide retail sales reached RMB74.8 billion in the first six months of 2016, up 10.6% year-on-year (YoY).

- Two projects launched onto the market during the first three quarters of 2016, including the Shimao E-mall in Siming and C&D One Park in Huli. This brought total retail stock to 1.45 million sq m.

- First-floor prime shopping mall rents reached an average of

RMB447 per sq m per month in Q3/2016, rising 4.9% quarter-on-quarter (QoQ).

- City-wide vacancy rates decreased 1.4% to 5.0% QoQ. Average vacancy rates in the Huli district were the lowest, at only 2.6%.

- Two projects are expected to launch onto the market in Q4/2016, adding 70,000 sq m to the retail market.

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 “The city’s retail market witnessed few stores closing in Q3/2016. All retail categories, except for business services, saw an increase in retail space take up.” Sam He, Savills Research

➔ **Market overview**

From January to July 2016, city-wide retail sales totalled RMB74.8 billion, up 10.6% YoY. Sales in July reached RMB10.5 billion, increasing 12.4% YoY. Since May 2016, the growth rate of city-wide retail sales has been over 10%.

The prime retail market performed well in Q3/2016, with average first-floor prime shopping mall rents reaching RMB447 per sq m per month. The Siming district saw the highest rents out of all the districts, at RMB536 per sq m per month, followed by rents in the Huli district, which reached RMB400 per sq m per month. Average first-floor prime shopping mall rents on the mainland were RMB270 per sq m per month.

City-wide vacancy rates decreased 1.4% to 5.0%. Vacancy rates in the Huli district were 2.6%, the lowest in the city. On the mainland, vacancy rates were higher than the Island at 6.1%.

Average city-wide high-end retail lifestyle stores increased 2.2% QoQ to 36.1%, while those on the mainland increased by 4.8% to an average of 46.8%.

Supply

Two new high-end shopping malls, one in Siming and the other in Huli, were launched onto the market in Q3/2016, pushing retail stock to 1.45 million sq m, up 7.8% YoY. New high-end retail supply reached 104,820 sq m.

As all new supply is concentrated in the Siming district, it now accounts for 52% of the city's total retail stock, the highest in the city. The Huli district follows, with a 27% share of total stock. The mainland accommodates the remaining 22% of the stock.

Occupancy rates

In Q3/2016, city-wide occupancy rates stood at 95.0%, up 1.4 percentage points (ppts) QoQ.

Occupancy rates in the Siming district saw a decrease of 0.4%

while Huli occupancy rates reached 97.4%, still the highest in the city. Occupancy rates on the mainland increased by 3 ppts, although still remained below those seen on the island.

Shimao Emall opened in July, and performed well in pre-leasing, with occupancy rates reaching 98%. However, PCD Stores in Jiahe Road saw a number of retail stores closing, resulting in the occupancy rate decreasing 12%. In addition, the

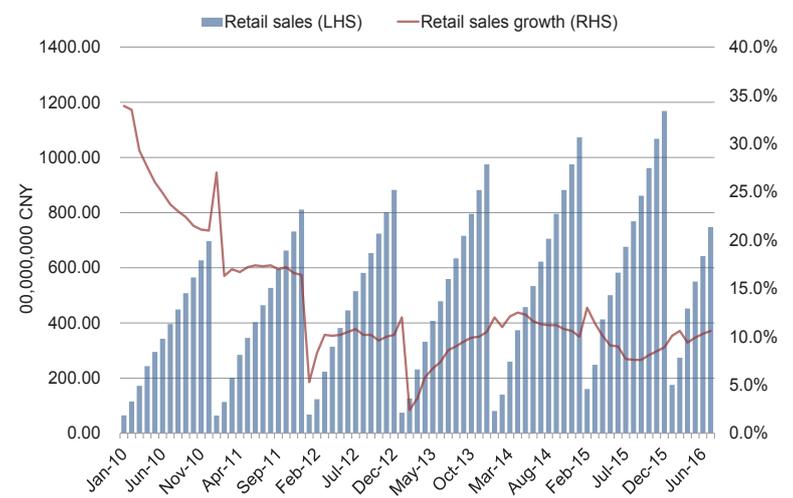
occupancy rate in Ruijing Shopping Plaza fell 6%.

High-end retail lifestyle stores accounted for 36.1% of occupied space in the city, up 2.2% QoQ. Lifestyle store rates on the island remained relatively constant, while those on the mainland increased to 4.8% higher than Q2/2016.

Tenant Adjustment

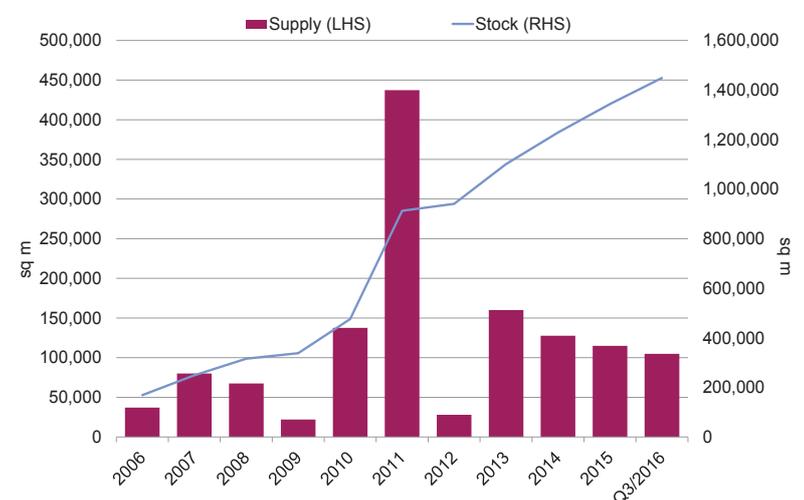
The high-end retail market saw the closing of a few stores in

GRAPH 1 **Retail sales, Jan 2010–Jul 2016**



Source: Xiamen Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2006–Q3/2016**



Source: Savills Research

Q3/2016. Except for the Business Services sector, other sectors have seen increases in retail space take up. The Beauty & Personal Care category expanded dramatically, with retail area increasing by 14%. Gyms and Entertainment followed, with the total space increasing by 10%.

Due to the good pre-leasing conditions experienced by new projects, total occupied retail space in Siming rose 9%. High-end

shopping malls on the mainland are proactively improving their quality, especially the Jimei Wanda Plaza, which saw an increase in total occupied space. This is a result of the developer aggressively recruiting tenants, which, as a result, saw the F&B, clothing, gym, and entertainment sectors all increasing in total occupied space.

The education sector experienced significant changes in Q3/2016, with an emerging trend of transferring

from the island to the mainland. Brainmaps in Huli Wanda Plaza closed, leading to a 21% decrease in the Education category space in Huli. The opening of Magic English and 97 Kid in TOO Aluohai City Plaza, as well as the Easy Speak International English in Jimei Wanda Plaza, pushed up space taken by the Education sector on the mainland by 15%.

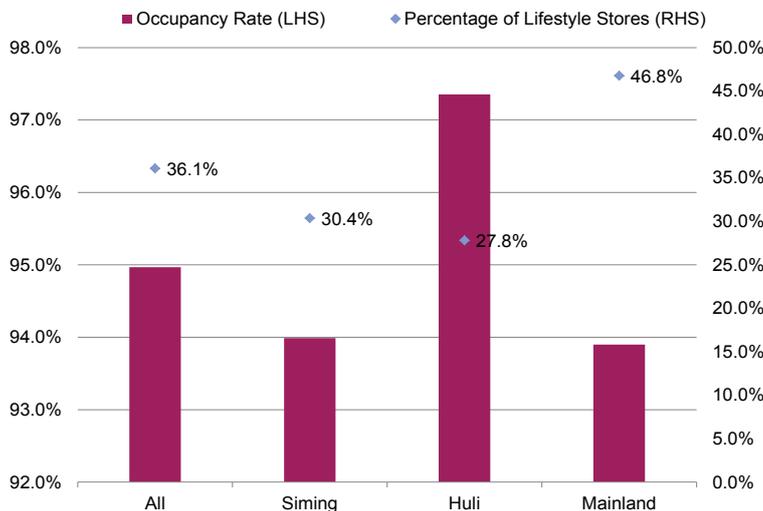
Market outlook

Two new shopping malls, AVIC in Siming and SEC in Haicang, will launch in Q4/2016, adding 70,000 sq m to the market, pushing total retail stock up 5% to 1.52 million sq m.

Shopping malls, especially the new ones, are trying to attract more customers by increasing the proportion of lifestyle stores. Therefore, the Gym, Entertainment and, F&B sectors are expected to experience increases in space occupied and proportion of stores. In order to maximise profits, some shopping malls will raise rents and expand the area of retail stores as opposed to lifestyle stores. This will result in the closing of some lifestyle stores, such as the education sector, who require larger space. Currently, most high-end retail shops on the island are experiencing relatively high footfall. Rents on the island are expected to continue increasing, forcing lifestyle stores to gradually move to the mainland.

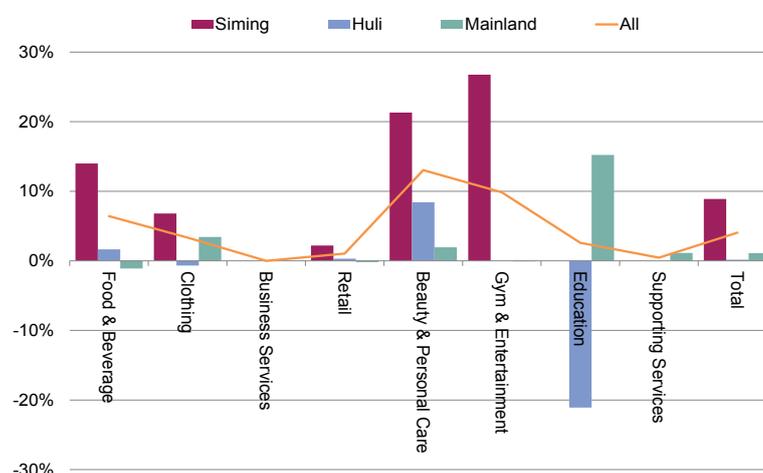
Retail supply is expected to temporarily slow due to current market saturation. However, as the city sees further development and urbanisation, as well as a population influx, the retail market can expect to capitalise on this. New supply of high-class shopping malls is expected to be concentrated primarily in the Siming district on the island. The swift development of the residential market on the mainland is expected to impact the retail market by attracting more shopping malls to the area. ■

GRAPH 3 Occupancy rates and proportion of lifestyle stores by districts, Q3/2016



Source: Savills Research

GRAPH 4 Tenants Changes, Q2/2016 to Q3/2016



Source: Savills Research

Project information

Shimao Emall

Located next to the Xiamen Harbour, Shimao Emall is located to the east of Xiamen University and west of Gulangyu Island. The shopping mall is part of the HOPSCA development by the Shanghai Shimao Group.

The shopping mall is made up of a number of categories including entry lux, fast-fashion, F&B, entertainment, cinema and gym. The varied categories enable the mall to provide consumers with a multi-dimensional shopping experience.

Project	Shimao Emall
	
Location	Siming district
Owner	Shimao Group
Handover date	July 2016
Retail GFA	50,000 sq m
No. of storeys	1-6F

Source: Savills China Research

Please contact us for further information

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