

# Briefing Retail sector

April 2017



Image: The MixC, Siming district

## SUMMARY

While new shopping malls continue to be concentrated on the island, high-end retail supply will gradually transfer to the mainland as a result of increasing land scarcity on the island as well as the growth of the mainland's population.

- City-wide annual retail sales reached RMB123.8 billion in 2016, up 9.8% year-on-year (YoY).

- Three projects, totalling 210,000 sq m, launched onto the market in 2016, including the Shimao Emall in Siming, C&D One Park in Huli and the Modern City in Tong'an. Total retail stock increased to 1.55 million sq m. No new shopping malls opened in Q1/2017.

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

RMB432.8 per sq m per month in Q1/2017, rising 11% year-on-year (YoY).

- City-wide vacancy rates decreased 1.6 ppts to 3.1% quarter-on-quarter (QoQ). The Huli district recorded the lowest average rate among all districts, at 1.5%.

- Five projects are expected to launch onto the market in 2017, adding approximately 250,000 sq m of retail space.

“Owing to its larger stock but smaller population, the Siming district retail market continues to see fiercer competition than the Huli district, whose own retail market has witnessed growing demand.” Robert Ritacca, Savills Research

➔ **Market overview**

Annual city-wide retail sales totalled RMB123.8 billion in 2016, up 9.8% YoY. The growth rate of retail sales in 2016 increased 0.9 of a percentage point (ppt) compared to 2015. Steadily growing retail sales have underpinned the development of the city's high-end retail property market.

The average first-floor prime shopping mall rent in the city's prime retail market reached RMB432.8 per sq m per month in Q1/2017. The Huli district saw the highest rents out of all the districts, at RMB462.5 per sq m per month, followed by rents in the Siming district, which reached RMB452.2 per sq m per month during the period. Average first-floor prime shopping mall rents on the mainland stand at RMB355.0 per sq m per month.

City-wide vacancy rates (including lifestyle stores) decreased 1.6 ppts to 3.1% in Q1/2017. The Huli district recorded the lowest vacancy rate in the city at 1.5%. On the mainland, vacancy rates remain higher than the Island, at 5.0%. Average city-wide high-end retail lifestyle stores saw vacancy rates increase 0.7 of a ppt QoQ to 36.1%, up 4.7 ppts YoY. The proportion of lifestyle stores increased on the mainland to 50.4%, while the island's Huli district recorded a decrease.

**Supply**

One new high-end shopping mall, the Modern City in Tong'an, opened in Q4/2016, adding 60,000 sq m to the market and pushing retail stock up 18.6% YoY to 1.55 million sq m. No new projects launched in Q1/2017.

The majority of the city's retail stock, approximately 47%, is concentrated in the Siming district. The Huli district follows, accounting for 27% of total stock, while the mainland holds the remaining 26%. According to the Xiamen Statistical Yearbook, the Huli district has a larger population than the Siming district. However, the amount of high-end retail stock in Huli remains 58% less

than Siming. As a result, the demand for new retail projects in Huli remains stronger.

**Occupancy rates**

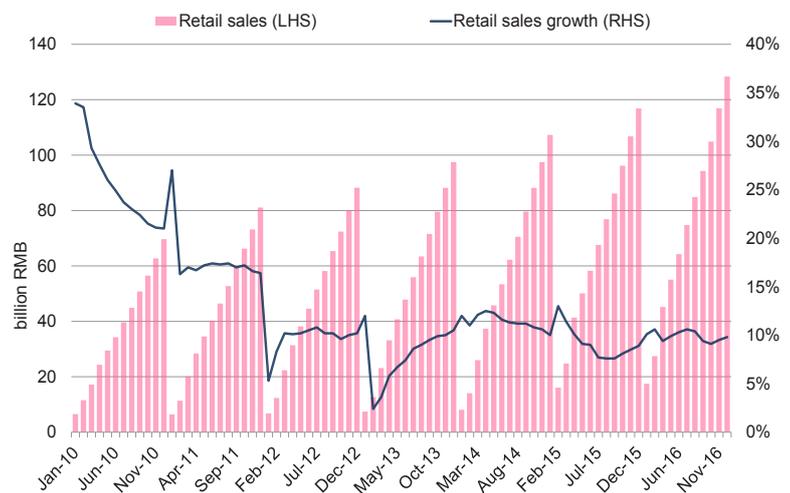
In Q1/2017, city-wide occupancy rates stood at 96.9%, up 1.6 ppts QoQ.

Occupancy rates across the city saw increases due to the new projects' good pre-leasing performance. Siming saw the largest growth in occupancy rates, up by 2.5 ppts to 96.6%, while the Huli district's

occupancy rate reached 98.5%, remaining the highest in the city. Occupancy rates on the mainland reached 95%, below those seen on the island. The retail stock in Siming is greater than Huli and the population is smaller, leading to fiercer competition in the submarket than in Huli, resulting in lower occupancy rates.

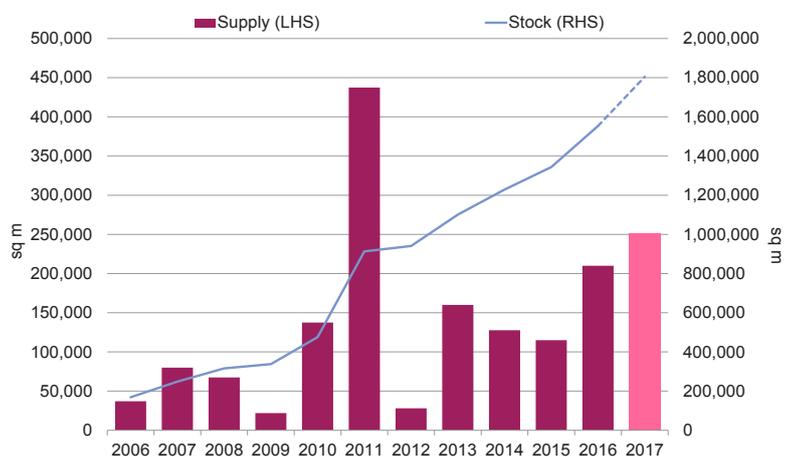
High-end retail lifestyle stores accounted for 39.3% of occupied space in the city, up 0.7% QoQ and 4.7% YoY. Strong competition

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



Source: Xiamen Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2006–2017**



Source: Savills Research

in Siming drove mall owners to introduce more lifestyle stores to increase footfall. As a result, the proportion of lifestyle stores in the Siming district saw the greatest increase.

### Tenant Adjustment

The market saw some diverse quarterly movements and adjustments in Q1/2017. The GFA of the Food & Beverage sector (see Figure 4 below) grew by nearly 1.3% QoQ, surpassing that of the Clothing sector to become the second largest retail sector in the city. Additionally, the relatively smaller Education sector and the Cosmetics & Healthcare sector both expanded their total retail area, growing by 24% and 14% respectively. All three of these sectors are lifestyle stores. Lifestyle stores may increase the footfall of the shopping mall area, contributing to increased consumption and city-wide GDP. The high-end retail sector saw a few stores open in Q1/2017, however market share fell due to significant GFA increases in F&B, Education, Cosmetics & Healthcare. The only sector in Q1/2017 to register a net area decline was the much smaller Supporting Services sector.

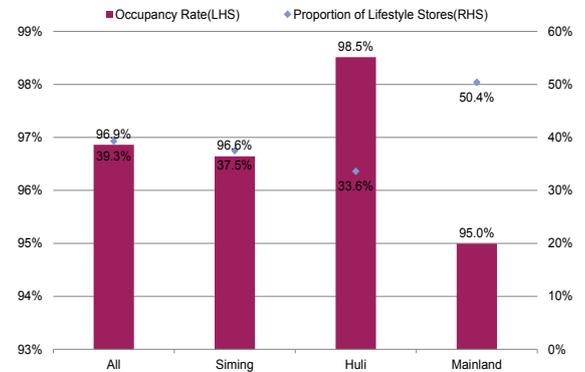
Total stock increased significantly in 2016. The total stock on the island increased by 13%, while mainland total stock increased

by 14%. As a result, the owners were trying to adjust tenants in order to increase footfall. Through Q1/2017, the Siming district was responsible for the largest increase in GFA. The Siming F&B sector grew its GFA presence by over 25%, while the much smaller Cosmetic & Healthcare, and Education sectors grew by 21% and 121% respectively. Due to an even greater amount of new supply and intensifying competition from the retail market, Siming shopping mall owners are trying to increase the percentage of lifestyle stores, especially those with Food & Beverage options to attract new customers. Meanwhile, the Huli district exhibited an increase in Retail stores and Cosmetics & Healthcare due to robust consumer demand.

### Market outlook

Five new shopping malls are expected to launch in 2017, adding 250,000 sq m to the city's retail market, of which 70% will be located on the island. New supply will push total retail stock up 16% to 1.81 million sq m. With the largest population in the city, the Huli district continues to see the greatest demand for new retail projects and, as a result, accounted for the majority of new supply in 2016. The district is expected to receive more than half the supply expected to

GRAPH 3  
**Occupancy rates and proportion of lifestyle stores by district, Q1/2017**

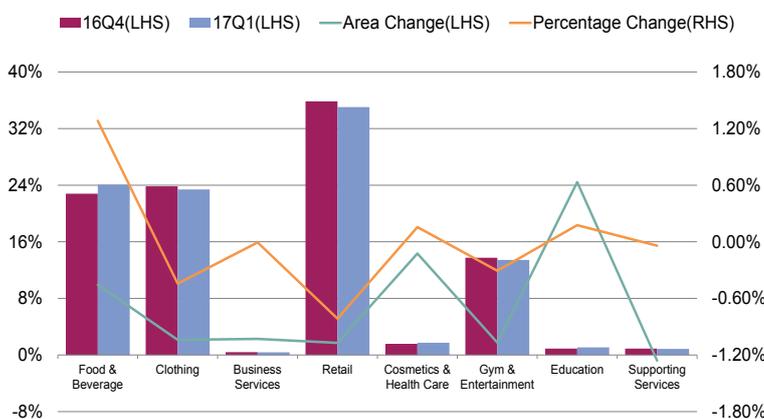


Source: Savills Research

enter the market in 2017. Average disposal income and consumption per capita in the Haicang district has already surpassed that of the Huli district to become second among all the city's districts after Siming. The Haicang district also expects to receive an influx of new residents as a result of the city's master development plan, which gives privileged policies regarding construction to districts located within the Xiamen Free Trade Zone (FTZ), where the Haicang district is located. With a growing population and rising incomes, the outlook of the Haicang retail market is positive.

As land resources become increasingly limited on the island, much of the land market will move to the mainland where plots are readily available for development. No commercial land plots for retail use came onto the market in 2016. However, one retail land plot transacted in the Haicang district in Q1/2017. At the same time, the concentration of new residential land plots on the mainland, especially in the Jimei and Xiang'an areas, are expected to improve the local residential market, which in time will generate demand for the mainland's retail market. ■

GRAPH 4  
**Tenants Changes, Q4/2016 to Q1/2017**



Source: Savills Research

## Project information

### The Modern City

The Modern City is the Tong'an district's first urban complex. The project includes shopping malls, SOHO offices, traditional Grade A office space and a pedestrian street. Located on Wutong Road in the Tong'an Industrial Concentration District, The Modern City is positioned as a high-end shopping mall and includes a number of Children's retailers and young peoples' fashion brands, some of which are making their Tong'an market debut.

<b>Project</b>	The Modern City
	
<b>Location</b>	Tong'an district
<b>Owner</b>	Xiamen Xinjingdi Group and Shunhong Group
<b>Opening date</b>	October 1, 2016
<b>Retail GFA</b>	60,000 sq m
<b>Retailers</b>	Yonghui, Suning, Stella International Cinema, H&M, Uniqlo, New Look, Starbucks, Watson's and so on.

Source: Savills China Research

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