

# Briefing Retail sector

May 2018

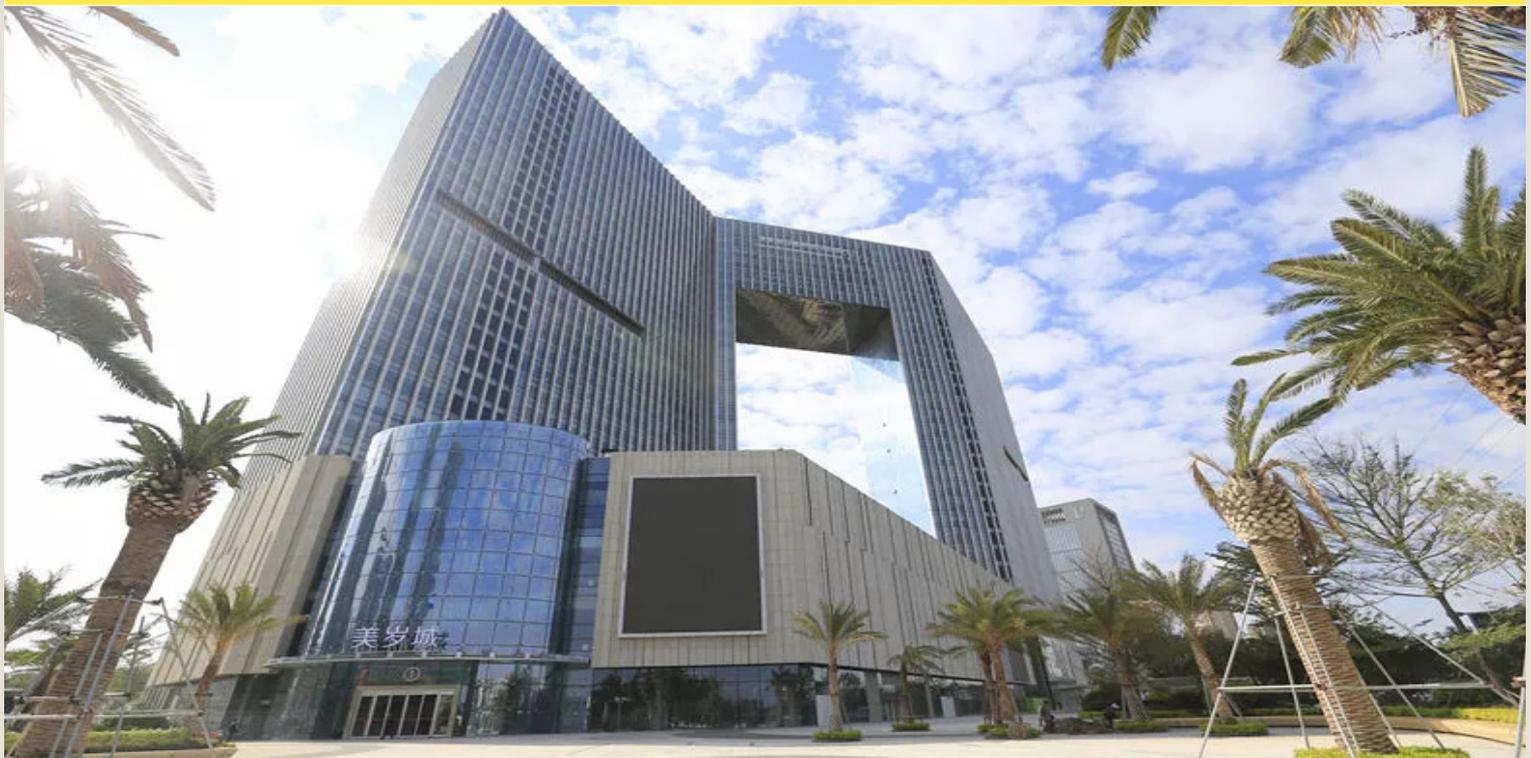


Image: ITFC Mall, Huli District

## SUMMARY

Xiamen's vacancy rates continue to trend down even with increasing average rents, indicating strong demand in the market.

- City-wide retail sales for businesses above a designated size totalled RMB16.45 billion in the first two months of 2018, up 16.3% year on year (YoY).

- One project, ITFC Mall in Huli, was launched in Q1/2018, adding 60,000 sq m to the current market. Total retail stock increased to 1.89 million sq m.

- First-floor prime shopping mall rents reached RMB408.8 per sq m per month, rising 1.2% YoY.

- City-wide vacancy rates increased 1.8 percentage points (ppts) YoY to 4.7%. The city-wide proportion of experiential retailers reached 40.8% in Q1/2018.

- One project is expected to launch in Q2/2018, adding approximately 130,000 sq m of retail space.

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 "The mainland retail market will continue to grow with urbanisation plans focusing on building infrastructure and new residential projects to attract larger populations." Woody Lam, Savills Southern China  
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➔ **Market overview**

Xiamen retail sales by businesses above a designated size totalled RMB16.45 billion in the first two months of 2018, up 16.3% YoY. The steady and fast growth of retail sales has underpinned the development of the city's high-end retail property market.

The population of Xiamen reached 4.01 million at the end of 2017, 2.3% higher than in 2016. The growth of disposable income per capita was 8.1%, while that of personal expenditure increased by only 3.9%. The increase in population and disposable income will boost retail demand. However, the relatively low growth of personal expenditure indicates the short supply of retail places and singularity of options.

**Supply**

The 60,000 sq m ITFC Mall in Huli was launched in Q1/2018, pushing retail stock to 1.89 million sq m.

The majority of the city's retail stock, around 45%, is concentrated in the Siming district. Huli district accounts for 27% of the total stock, while mainland districts hold the remaining 28%. Due to population growth and rapid urbanisation, the proportion of stock in mainland districts increased significantly. It is estimated that the mainland's population will increase in the near future, generating more demand for retail.

**Vacancy rates**

The city-wide vacancy rate was 4.7% in Q1/2018, up 1.8 pts QoQ and 1.6 pts YoY.

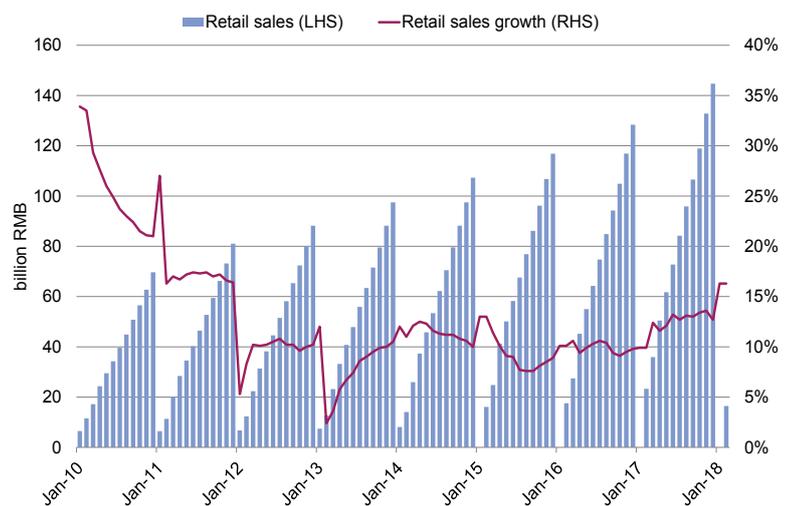
Excluding the entry of a new mall, the vacancy rate in Huli remained stable QoQ and showed a declining trend YoY. Thanks to the good performance of new projects in Siming and mainland, vacancy rates

in both areas were stable, recording 2.8% and 5% respectively.

Experiential retailers in prime shopping malls accounted for 40.8% of occupied space. Siming's experiential retailer proportion reached 42.8% while the figure in Huli was 31.9%. Siming, with the most retail space across the city, is an area of intense competition and attracts a greater proportion of experiential retailers to lure shoppers. Meanwhile, Huli has a

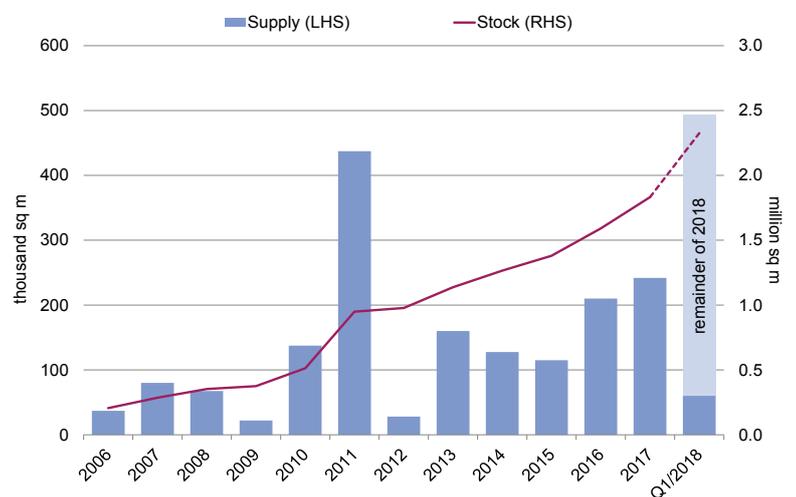
relatively larger population but fewer prime shopping malls, and thus mall operators prefer to lease space to tenants with better affordability, such as fashion retailers, to increase rental income. The mainland market is still at an early stage of development with fewer consumers compared to Siming and Huli. Operators there are working to introduce more experiential retailers to better compete with other malls.

GRAPH 1 **Retail sales, Jan 2010-Feb 2018**



Source: Xiamen Statistics Bureau, Savills Research

GRAPH 2 **Shopping mall supply and stock, 2006- Q1/2018**



Source: Savills Research

## Rents

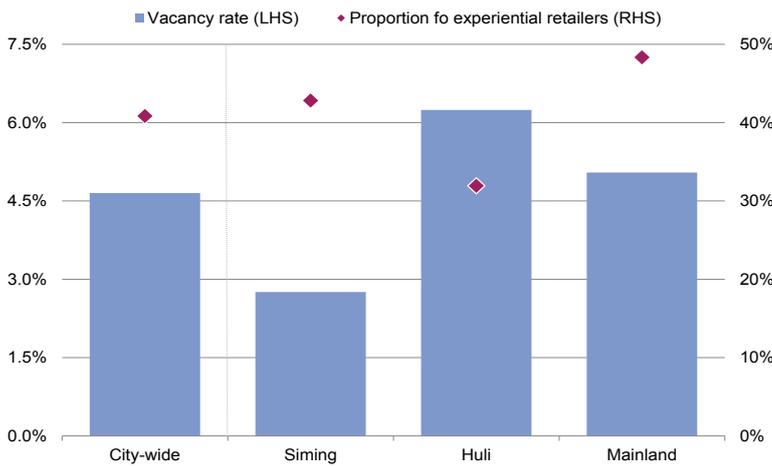
Average first-floor prime shopping mall rents reached RMB408.3 per sq m per month. The Huli district recorded the highest rent city-wide at RMB458 per sq m per month, followed by Siming, at RMB445 per sq m per month. Average first-floor prime shopping mall rents in the mainland stood at RMB300 per sq m per month.

City-wide average first-floor shopping mall rents increased 1.1% YoY. The mainland's average rental index increased dramatically by 5.6% YoY, with the biggest hike observed in Xiang'an. However, its average absolute rental value dropped by 10% YoY due to low average rents in new projects. It is expected that retail demand in the mainland will continue to increase due to a growing population and continuous rapid

urban development. In addition, compared to Siming and Huli where tourists and residents alike are target consumers, the mainland retail market will mainly serve its residents. Thus, there are opportunities for more community retail projects.

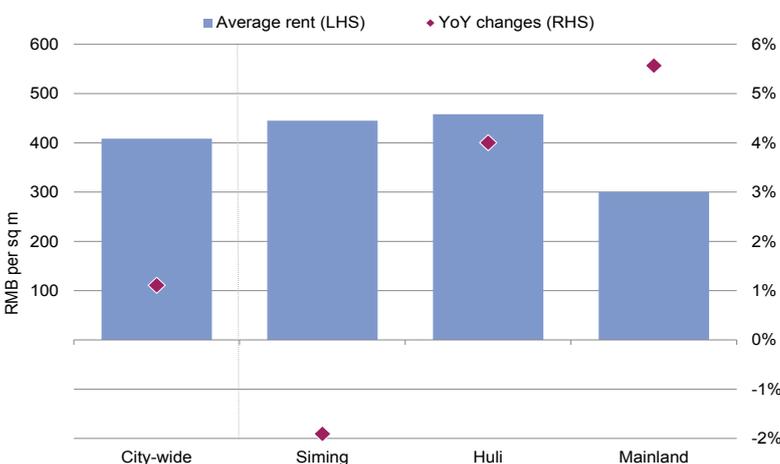
Average first-floor shopping mall rents in Huli district increased 4% YoY; however, Siming district rents dropped by 1.2%. Rental increases in Huli indicated strong demand for high-end retail projects. In Siming, mall operators of new projects will often offer lower rents to attract tenants and boost occupancy rates. Thereafter, rents will gradually increase as projects mature.

GRAPH 3  
Occupancy rates and proportion of experiential retailers by district, Q1/2018



Source: Savills Research

GRAPH 4  
First-floor prime shopping mall rents, Q1/2018



Source: Savills Research

## Market outlook

The Wangfujing Shopping Mall in Jimei is expected to launch in Q2/2018, adding 130,000 sq m to the city's retail market. New supply will push total retail stock up to 2.02 million sq m. Wangfujing will become a landmark project on the mainland, raising the quality of the mainland retail market.

Several new projects are expected to open in the remainder of 2018, satisfying the demands of the local population. Meanwhile, as most of the city's residential land supply is located on the mainland, more opportunities for retail will become available in the future.

## Project information

### ITFC Mall

ITFC Mall, developed by Xiamen ITG Holding Co. Limited, is located in Xiamen Cross Strait Financial Centre. This shopping mall, as a part of the International Trade Financial Centre, mainly serves the business community and surrounding middle-class. As a landmark project, ITFC Mall aims to provide customers with a unique shopping experience by offering a variety of luxury, fashion and F&B outlets.

<b>Project</b>	ITFC Mall
<b>Location</b>	Huli district
<b>Owner</b>	Xiamen ITG Holding Co., Ltd
<b>Opening date</b>	Jan 28, 2018
<b>Retail GFA</b>	60,000 sq m
<b>Retailers</b>	Including Starbucks, Agatha, Dissona, G-Givency



Source: Savills Research

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