

Briefing Retail sector

September 2015



Image: Huadongwanhe City, East City, Xi'an

SUMMARY

The prime retail market will see another influx of supply over the next three years, resulting in intensified competition.

- By the end of 1H/2015, city-wide prime retail stock total led nearly two million sq m. Prime retail projects in Xi'an are centralised within eight areas. Prime areas include Downtown and Xiaozhai, while non-prime areas include the High-tech Zone, South 2nd Ring Road, Dayanta- Qujiang, and the Economic Development Zone, East and West.

- Average first-floor prime retail rents were recorded at RMB14.0 per sq m

per day, while vacancy rates reached 4.8%.

- Prime retail areas first-floor prime retail rents averaged RMB22.9 per sq m per day with vacancy rates at 1.1% while non-prime area was RMB9.8 per sq m per day with vacancy rates of 6.4%.

- Over the next three years, supply is expected to reach over three million sq m.

"The growth of the city's economy has fed through into rising disposable incomes in the area, resulting in the further development of Xi'an's prime retail market. However, the expected influx of supply will create both opportunities and challenges within the market."

Dave Law, Savills Research

➔ **Market overview**

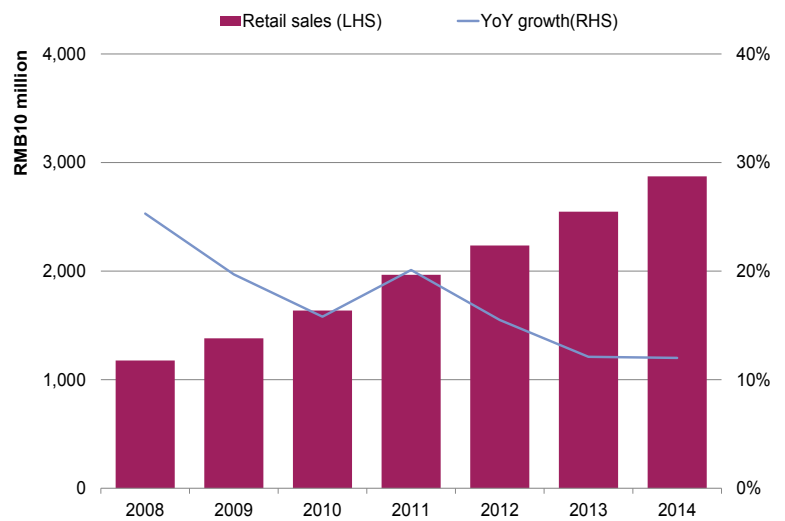
Xi'an is the capital of the Shaanxi Province and the largest central city in the economic belt of the Lanzhou-Xinjiang Railway. With the implementation of the Western Development Strategy and the Guanzhong-Tianshui Economic Zone Development Plan, Xi'an's economy has developed rapidly. The One Belt and One Road Strategy (OBAOR), coupled with Xi'an's location as the start point of the new Silk Road, the city is becoming an important connecting point between non-coastal cities along the Silk Road, the sea and the Eurasian Land Bridge.

As a result, Xi'an is facing unparalleled development opportunities. In 2014, Xi'an's GDP per capita reached USD\$10,394 and disposable income per capita of urban residents reached RMB36,000, up 9.1% year-on-year (YoY) and both higher than the national average. At the same time, due to the boost from the continuously developing economy, Xi'an's overall retail sales reach RMB287.29 billion, up 12% YoY.

The combination of the increasing standard of living for residents, the government's supportive measures in regards to the modern tertiary industry, and its position as an international city, has provided Xi'an with unprecedented development opportunities. By the end of 1H/2015, city-wide prime retail stock reached nearly two million sq m. Of this, high-end and mid-end department store stock accounted for 260,000 sq m, while shopping centre stock reached 1.69 million sq m. Xi'an's total stock lies between the cities of Chongqing and Chengdu.

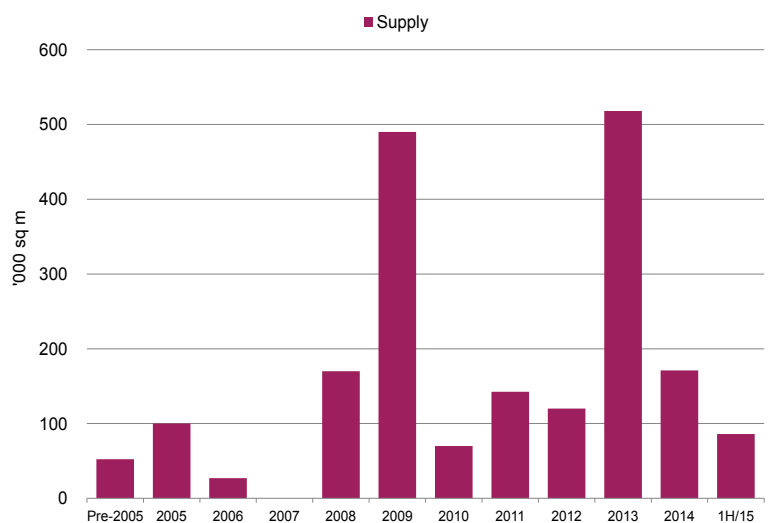
By the end of 1H/2015, Xi'an first-floor rents reached RMB14.7 per sq m per day, lower than that seen in Chengdu

GRAPH 1 **Retail sales and growth rate in Xi'an, 2008-2014**



Source: Xi'an Bureau of Statistics

GRAPH 2 **Xi'an's prime retail supply, 1998-1H/2015**



Source: Savills Research

TABLE 1 **Comparison of Prime Retail in Xi'an, Chengdu and Chongqing**

City	Rent (RMB per sq m per day)	Vacancy Rate (%)
Xi'an	14.0	4.8
Chengdu	18.1	7.1
Chongqing	23.4	2.1

Source: Savills Research

and Chongqing, while vacancy rates reached 4.7%.

The lack of prime retail supply in prime areas, combined with its advantageous location and high footfall, has resulted in prime areas achieving high first-floor rents and low vacancy rates of RMB22.9 per sq m per day and 1.1%, respectively. Non-prime area first-floor rents and vacancy rates were recorded at RMB9.8 per sq m per day and 6.4%, respectively.

Distribution of prime retail in Xi'an

Prime retail projects in Xi'an are centralised within eight areas. Prime areas include Downtown and Xiaozhai, while non-prime areas include the High-tech Zone, South 2nd Ring Road, Dayanta- Qujiang, and the Economic Development Zone East and West.

- Downtown

Downtown, situated between Zhonglou and Huancheng Road area, was the first developed area in Xi'an's commercial real estate market. By the end of 1H/2015, it had 380,000 sq m of prime retail stock, including Zhongda International and Xi'an Minle Park Wanda Plaza. With the advantageous location, accessibility to transportation systems and high levels of footfall, first-floor rents were the highest in the city at RMB24.9 per sq m per day. The area also had the lowest vacancy rates at 1.7%.

The Downtown area is home to differently-positioned projects targeting both local residents and tourists.

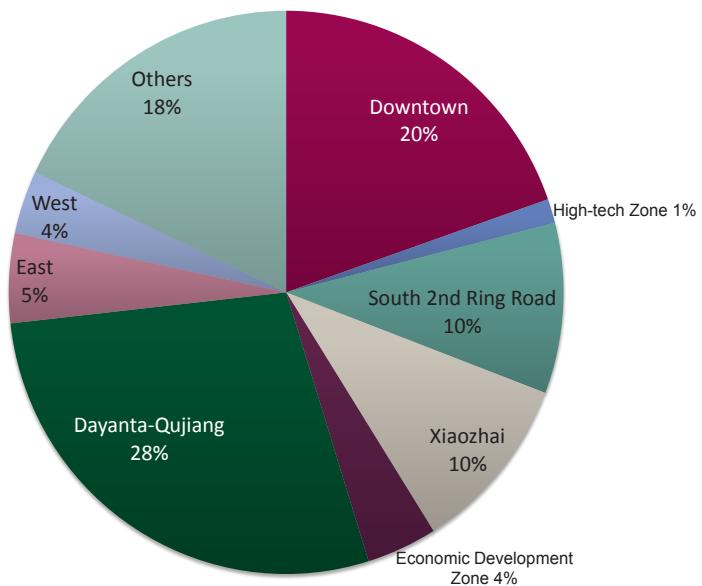
Zhonglou district, a core sub-district of the Downtown area, benefits from a wide catchment area. Projects within the district are mainly high-end department stores which attract many well-known brands such as Prada, Gucci and LV. Key projects include

MAP 1 Distribution of prime retail areas in Xi'an



Source: Savills Research

GRAPH 3 Stock of Xi'an's prime retail, 1H/2015



Source: Savills Research

Zhongda International and the Century Ginwa Bell Tower Shopping Centre. In addition, other sub-districts in the Downtown area are home to shopping malls focusing on young consumers and surrounding residents. Shopping malls, such as Xi'an Minle Park Wanda

Plaza, enrich the type of retailer found in the Downtown area, attracting high levels of footfall. These projects comprise F&B and entertainment retailers, as well as fashion brands such as H&M and GAP.

However, due to the limitation of land supply in this area, there is no future supply expected in the next three years.

- Xiaozhai

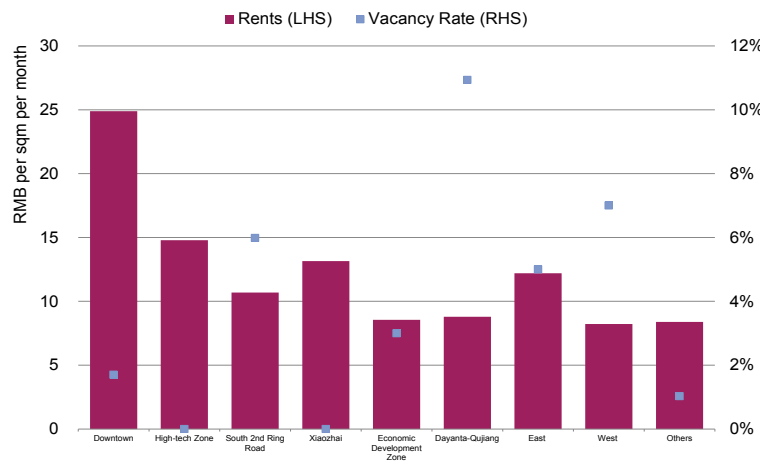
Chang'an Road is the main road in this area and is one of the most flourishing parts of Xi'an. The combination of long-term development and 15 universities located in this area, means it has become the first choice retail destination for young people living and working in the surrounding areas. Key projects, such as the 200,000 sq m Sagabuy, comprise shopping, entertainment and F&B for both social and business activities. Themed restaurants are a key attraction in the area, with numerous brands attracting high levels of footfall. Sagabuy has attracted a number of well-known brands such as BLT, Uniqlo, AJ, Tiffany & Co, Cheer, and Yi Sushi. Due to the matching of positioning with the target consumers, operational performance is good, with first-floor rents reaching RMB13.2 per sq m per day, and close to full occupancy.

Due to the continued development of the area, future supply is expected to reach over 400,000 sq m in the next three years.

- High-tech Zone

As one of the first national-level high-tech zones approved by the state Council, Xi'an's High-tech Zone has developed rapidly over the past 20 years, and has become the most active zone in Xi'an in terms of economic and industrial development. The Xi'an High-tech Zone has a significant advantage in Central and Western China in terms of investment and economic activity, and is one of the most well-known high-tech zones overall in China in terms of economic activity, industrial development, enterprise numbers and

GRAPH 4 Rents and vacancy rate of each plate in Xi'an, 1H/2015



Source: Savills Research

investment environment. However, as the retail market developed relatively late, prime retail stock in the area is relatively small, with only one major project, the Century Ginwa Hi-tech Shopping Center, with 27,000 sq m GFA. Due to high demand from people working in the surrounding area, high-quality supporting facilities and environment, projects in this area are in good condition with 100% occupancy rates. First-floor rents reached RMB14.8 per sq m per day.

Influenced by government plans and industry development, High-tech Zone is expanding to the west and south. As a result of the rapid development, the area is expected to generate a large amount of demand for retail. At the same time, the planned development of the High-tech Zone CBD and pedestrian street will drive the investment and development of retail projects. It is estimated that during the next three years there will be over 800,000 sq m of new supply entering the market, mainly shopping centres and retail podiums such as Greenland City, Greenland Center, JinyeTimes and Wangdu City.

- Dayanta-Quijiang

Dayanta-Quijiang is home to cultural and entertainment attractions, with culture and tourism the main drivers of this area. Key retail projects are concentrated in the Dayanta South Square Tangfeng area, such as Datang White City, Quijiang Intime City, and Qin Han Tang Sky Plaza. As projects in the area are concentrated within one location (GFA 546,000 sq m) and most are cultural and tourist-oriented projects, they have become very homogeneous. In addition, as this district is driven by tourism, it shows a seasonal trend hindering an overall positive performance. Vacancy rates stand at 10.9% while first-floor rents reach RMB8.8 per sq m per day.

- Economic Development Zone

Located in the northern part of Xi'an, this area is a national economic technology development area and is home to Xi'an's government. The retail market in this area began developing quite late, in 2007. As a new business zone in Xi'an, the commercial format is mainly aiming at satisfying the demand of surrounding residents. Most projects are department stores and community stores. There are only a few prime

retail projects, including Saigao Block at 80,000 sq m. Due to the mature residential market surrounding Saigao Block and the opening of metro line 2, the project's operational performance was strong. First-floor rents were recorded at RMB8.6 per sq m per day, while vacancy rates stood at 3%.

Boosted by government plans, a number of projects are expected to enter the market in the next three years, such as Saigao City Square and Zhengshang International Financial Center, totalling over 500,000 sq m. The majority of new supply will be within mixed-use projects, intensifying competition within the area.

- East

East, a small commodity trading centre, lacks prime retail projects, with the majority being low- to mid-end wholesalers. Lifeng International Shopping Square, the only prime shopping mall in this area, totals 100,000 sq m and comprises shopping, entertainment and F&B retailers. First-floor rents were recorded at RMB12.2 per sq m per day, while vacancy rates stood at 5%.

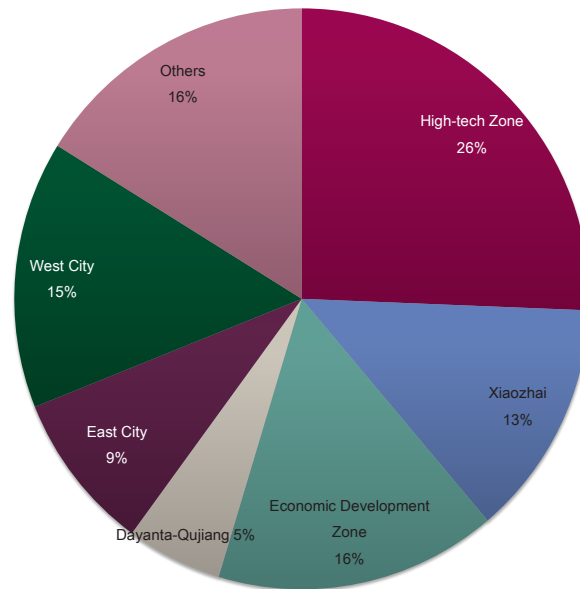
Over the next two years Chaoyang International Square and HuadongWanhe City are expected to enter the market, strengthening the overall retail market in this area. However, due to the location, Chaoyang International Square is under huge leasing pressure which may have a negative impact on its future operations.

Market outlook

According to the "Guanzhong-Tianshui Economic Zone Development Plan" (关中—天水经济区发展规划), by the end of 2020 the population in Xi'an will reach 10 million. This growth in population and continued industrial growth is

GRAPH 5

Distribution of future supply by district, 2015 - 2018E



Source: Savills Research

expected to boost consumption in the area and prompt more companies to establish a presence in the city, creating more demand on the commercial real estate market. At the same time, the OBAOR strategy will further enhance the economy in Xi'an, increasing the amount of disposable income in the area and bringing more demand to Xi'an's retail market.

Over the next three years, supply is expected to reach over three million sq m, 1.5 times current stock. As new supply patterns are gradually moving away from traditional business zones, non-prime areas are expected to expand and mature. The High-tech Zone and North areas are expected to see a higher portion of supply. As the majority of new supply is expected to be along the currently under construction metro lines, the future of retail in Xi'an is expected to be very metro-orientated, creating a larger catchment area for the shopping mall. The majority of new prime retail projects will be shopping centres

with multi-formats, comfortable consuming environment, and will be experiential focused. This will lead the transformation of Xi'an's retail market from a traditional consumption format to an experiential consumption format. At the same time, projects under construction, such as MixC and Xi'an Impression City, will comprise retail, hotel, residential, and office components.

In 2H/2015, four projects are expected to enter the market, totalling more than 600,000 sq m, including HuadongWanhe City and Yangguang Tiandi. ■

Project Focus

HuadongWanhe City

HuadongWanhe City, developed by the Shaanxi Huadong Group, is located in the northwest corner of Hujiamiao and East 2nd Ring Road intersection. It enjoys a convenient transportation system with links to Hujiamiao station (metro line 3 and 12) and over 20 bus routes. The GFA is over 300,000 sq m, with four floors underground and 23 floors above. The mixed-use project comprises shopping, F&B, cultural entertainment, and supporting facilities.

HuadongWanhe City shopping centre is about 200,000 sq m with two floors underground and six floors above. It has a 45,000-sq m global food centre, a 20,000-sq m children's experience centre, and a 15,000-sq m theatre. Many famous brands such as Korea CGV Film, Yuehao KTV, Dami Children Joy Education Park, and New Look have announced their plans to enter this project.

TABLE 2

HuadongWanhe City

Location	Northwest Corner of Hujiamiao Intersection, 2 nd Ring Rd	
Developer	Huadong Group	
Retail GFA	200,000 sq m	
Expected handover	Q3/2015	

Source: Savills Research

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