

Briefing Retail sector

June 2016



Image: Sunshine Paradise, intersection of Boshi Road and West Avenue, Gaoxin District

SUMMARY

Five prime retail projects entered the market bringing 546,000 sq m of new supply and pushing up prime retail stock to 2.38 million sq m.

- By the end of 2015, Xian overall retail sales reached RMB340.54 billion, up 10.1% year-on-year (YoY).
- Five new prime retail projects entered the market from 2H/2015 to 1H/2016, pushing up retail market stock to 2.38 million sq m.

- Average city-wide first-floor prime retail rents reached RMB15.4 per sq m per day, with vacancy rates at 6.3%.
- Prime retail areas' first-floor rents averaged RMB30.1 per sq m per day, with vacancy rates of 1%, while non-prime areas averaged RMB10.8 per sq m per day, with vacancy rates of 8%.

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 "Future projects will be primarily middle and mid-high end shopping malls with various retail formats, aiming to create an enjoyable shopping environment. This is expected to upgrade and advance the development of the city's retail landscape."

Dave Law, Savills Research and Consultancy

➔ **Market overview**

The end of 2015 saw overall retail sales reach RMB340.54 billion, up 10.1% YoY and growing steadily. The per-capita disposable income of the city, which is beginning to slow down, rose 8.05% YoY to RMB33,188, while the consumer price index increased 0.7%, following a steady trend.

Supply

From 2H/2015 to 1H/2015, the city welcomed five prime retail projects, totalling 546,000 sq m of new supply, pushing up prime retail stock to 2.38 million sq m.

Huadong Wanhe City

Huadong Wanhe City opened in August 2015. It is located northwest of the Hujiamiao intersection on the corner of East 2nd Ring Road and West Changyin Road. The project will be connected to metro line 3, Hujiamiao Station (expected to open later this year).

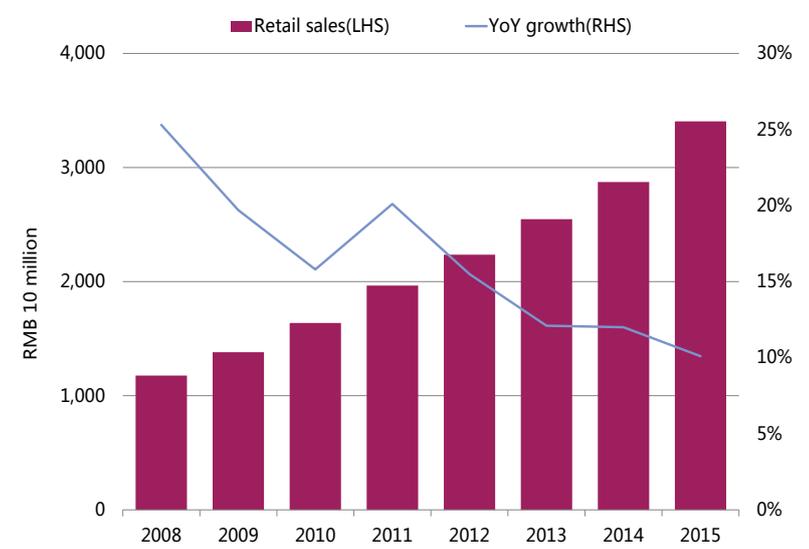
The total gross floor area (GFA) is approximately 300,000 sq m, including a shopping mall, office building, and SOHO. The GFA of the shopping mall is approximately 125,000 sq m, with anchor stores including V+ Supermarket and CGV Cinema.

Starry Street (Qujiang)

Starry Street (Qujiang) was launched in August 2015 and is the second Starry Street series Longfor has opened in Xi'an, after Starry Street (Daxing). Starry Street (Qujiang) is located on the east side of Qujiang Avenue, and is a ten-minute walk from the residential area of Qujiang New District Phase II.

The GFA is approximately 86,000 sq m and includes diversified retail formats such as F&B, lifestyle, and children's. The project has attracted a lot of well-known brands, such as Bravo Supermarket, New Balance, and SFG International Cinema City, due to the attractiveness of Longfor brands.

GRAPH 1 **Retail sales, 2008-2015**



Source: Xi'an Bureau of Statistics, Savills Research

Sunshine Paradise

In November 2015, Sunshine Paradise was launched. Located at the intersection of West Avenue and Boshi Road, it has many bus routes nearby, and is the first large scale, one-stop shopping centre in the Gaoxin District.

The property (210,000 sq m GFA) includes a hotel, shopping centre, office building, SOHO and commercial street. The shopping mall's tenant mix includes popular brands such as Today Bookstore, H&M, Oscar International Cinema, Starbucks, and New York City Kids Club.

Incify

Incify was launched in December 2015. It is the first Incify project by SCPG in Xi'an and is located at the corner of Weiyang and North Longshou Roads, next to Weiyang Station on metro line 2. The project enjoys convenient public transportation with more than 20 bus routes in the surrounding area.

The GFA is approximately 285,000 sq m, including an Incify Shopping Mall, Novotel Hotel, and residences. The total GFA of the shopping mall is 126,000 sq m and includes a variety of retail

formats such as a supermarket, cinema, children's, and F&B. Incity introduced an assortment of domestic and well-known international brands such as V+ Supermarket, CGV International Cinema, Toys R Us, Food Republic, and Momi Café.

CityOn

CityOn, developed by Taubman, Wangfujing and Saigao, was launched in April 2016. It is located at the intersection of Weiyang Road and Fengcheng Road and enjoys convenient public transport access with more than 20 bus routes and the Xingzhengzhongxin metro line 2 nearby. In addition, it will also connect to metro line 4 which is expected to launch in 2018.

The project (GFA 90,000 sq m) is anchored by the Wangfujin Department Store and has also introduced many well-known fast-fashion brands such as Forever 21, GAP, H&M, Monki and Zara.

Rents

Shopping mall first-floor rents increased 3.78% YoY in 1H/2016 to RMB15.4 per sq m per day. In prime retail areas, rents increased 7.43% YoY to RMB30.1

per sq m per day, and non-prime retail area rents increased 2.18% YoY to an average of RMB10.8 per sq m per day.

Attractive tenants, combined with the influence of high-end projects in the Centre and consumers' attraction to projects in Xiaozhai, meant prime retail areas experienced a high level of rents and saw steady growth. It must be noted that Sagabuy in Xiaozhai showed remarkable rental growth and recorded

the highest rents among similar projects in the city. This is due to its supreme location and high popularity amongst consumers, brought about by proactive tenant adjustment. The increase in rents was also assisted by the good performance of prime retail projects in non-prime retail areas.

Vacancy rates

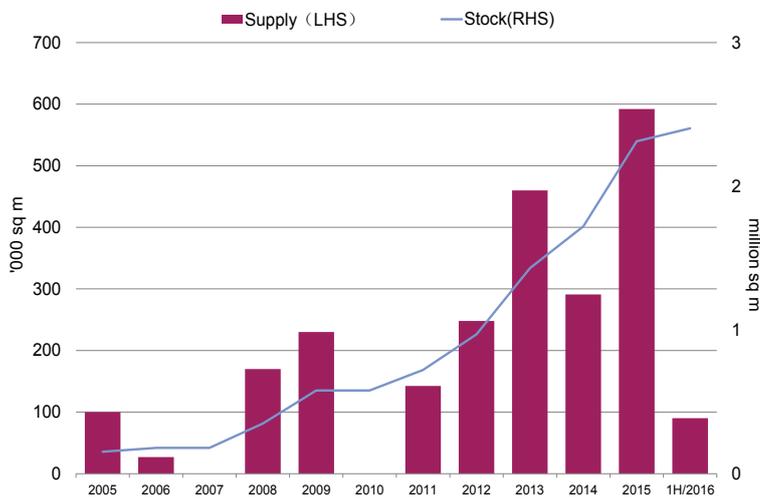
City-wide prime retail vacancy rates increased 2.1 percentage points (ppts)

in 1H/2016 to 6.3% YoY. Prime area vacancy rates decreased 0.1 of a ppt to 1.0% YoY. However, non-prime vacancy rates increased 3.6 ppts to 8% YoY.

In prime retail areas, high-end projects such as Zhongda International, Century Ginwa Shopping Center (Nanmen), and Wangfujin Department Store, all achieved almost 100% occupancy rates. High-end projects introduced international brands, such as the first BAPE specialty store in Northwest China, the first Godiva store in Xi'an, and Givenchy, Z Zegna, Apm Monaco, Philipp Plein, and Mont Blanc. Projects were also actively adjusting their retail formats and introducing more F&B, sports, and entertainment tenants. For example, Century Ginwa Shopping Center (Nanmen) reduced the proportion of retail stores and increased the number of F&B brands on its B1 level. It introduced F&B brands such as Pepper Lunch, Kaminarimon Ramen Shop, Lubos, and Edible Arrangements. Sagabuy also renovated its B2 level which directly connects to metro line 2, and introduced a series of popular quick-service F&B brands such as Ichido and Chazau.

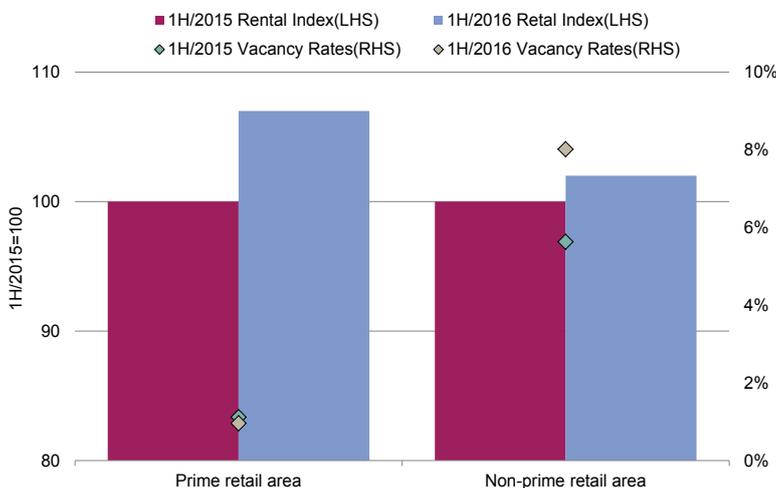
Century Ginwa Department Store moved out of Qin Han Tang Sky Plaza, resulting in an increase of vacancy rates in non-prime retail areas. Despite this, most projects in the area were able to achieve 100% occupancy rates, which can be attributed to the projects predominantly targeting the surrounding community, and having limited shopping centres in the area. For example, Gendale Plaza, which entered the market in Q1/2015, filled a gap in the Gaoxin district market and introduced tenants such as Today Bookstore, Oscar International Cinema, New Look and H&M.

GRAPH 2 Xi'an's prime retail supply, 2005-1H/2016



Source: Savills Research

GRAPH 3 Rental index and vacancy rate in prime and non-prime retail areas, 1H/2015-1H/2016



Source: Savills Research

Market information

- Since opening its first store in the Wangfujin Department Store in Q1/2015, Green Tea has opened a store in Saigao Block and another in Gendale Plaza in Q3/2015. Green Tea is a chain restaurant originating from the Green Tea Youth Hostel in Hangzhou, and is popular for its value-for-money food and ethnic style.

- In Q3/2015, the first Starbucks Reserve store in Xi'an was launched in the Gendale Plaza. Starbucks Reserve stores entered the China market in October 2014, and have since opened in cities such as Beijing, Shanghai, Guangzhou, Shenzheng, Chengdu, and Wuhan. Starbucks Reserve stores aim to bring a brand new coffee experience to coffee amateurs.

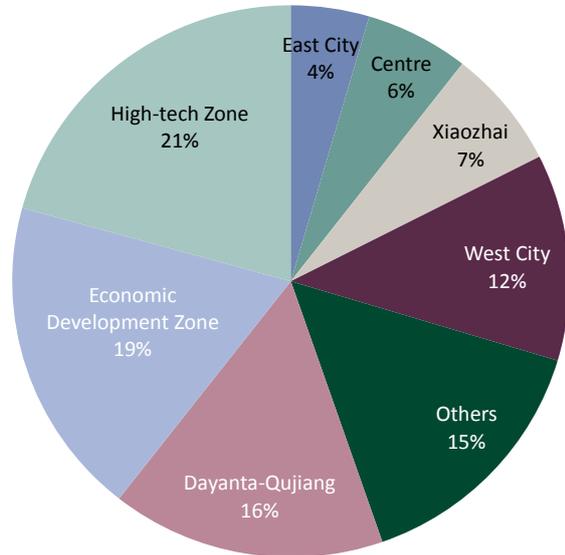
- In Q3/2015, the first Nice to Meet You restaurant in Xi'an was launched in the Gendale Plaza. Nice to Meet You offers middle to mid-high priced cuisine. After opening its first store in Shanghai, Nice to Meet You has opened more than 30 stores nationwide.

- In Q4/2015, well-known Belgium chocolate brand, Godiva, opened stores in both the Century Ginwa Shopping Centre Zhonglou and Shidai Square, its first stores in the city.

- In Q4/2015, the first BAPE specialty store in Northwest China was launched in Zhongda International. The store includes women's, men's and children's wear and accessories. Since BAPE opened its first specialty store in Shanghai in 2010, it has opened stores in cities such as Beijing, Shanghai, Guangzhou, Chengdu, Qingdao and Shenyang.

- In Q4/2015, Ren Ren Le specialty supermarket brand, Le Super, was launched in the Han-Shin Shopping Centre. This is the first Le Super in

GRAPH 4 **Distribution of future supply by district, 2H/2016-2H/2018E**



Source: Savills Research

Northwest China. With a total GFA of 2,700 sq m, it stocks both dry and fresh produce and has introduced an imported food section which covers approximately 30% of the total store area.

- In Q4/2015, the first Toys R Us in Xi'an was launched in Incity. Toys R Us is a world-leading toy and infant goods retailer. It entered the China market in 2006 and has since opened stores all over the country.

- In Q1/2016, the first Forever 21 in the city opened in CityOn. The total GFA is 2,000 sq m, covering three floors. Forever 21 offers product lines such as men's and women's wear, accessories, footwear and cosmetics.

Market Outlook

More than 25 new prime retail projects, many of which are being developed by well-known domestic companies, are expected to launch by the end of 2018, with a combined GFA of approximately 3 million sq m. The new supply will bring

both challenges and opportunities to existing projects. The new pressure will push the existing projects to adjust retail formats and tenant mix towards a larger proportion of experiential retail formats such as F&B and entertainment. It is expected that the retail market will upgrade to an experiential-orientated market with diversified retail formats, offering a better shopping environment for consumers.

More than 87% of the future supply will be concentrated in non-prime retail areas. Gaoxin is one such area which has a high number of residents but lacks large scale shopping malls, even after the launch of Sunshine Paradise. The area will see the launch of prime shopping malls such as Zhongda International the City, Greenland Colorful Plaza and Wanda Xi'an One, filling the gap in the market and improving the retail environment. As a result, Gaoxin is expected to become an influential retail area in the future. ■

Project Focus

Zhongda International the City

Zhongda International the City is located at the intersection of Gaoxin Road and 2nd Keji Road in the Gaoxin district. It enjoys convenient public transportation with several bus routes surrounding the project and is beside metro line 6, 2nd Keji Station (phase I expected to launch in 2016). The total GFA of the project is 320,000 sq m and consists of a high-end shopping centre the City shopping, the first Ritz-Carlton in Xi'an and a high-end residence Zhongda International.

Zhongda International the City's positioning will be the same as Zhongda International, and will be a high-end shopping centre. The shopping centre will include both international and domestic premium brands, F&B and entertainment.

TABLE 1W
Zhongda International the City

Location	Gaoxin district	
Developer	Zhongda Zhongfangxin Proprietary Co. LTD	
Retail GFA	100,000	
Expected handover	Q4/2016	

Source: Savills Research

Please contact us for further information

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