

Briefing Retail sector

December 2016



Image: Gpark, Intersect of Xinghuo Road and East Daxing Road, Daxing New District

SUMMARY

2H/2016 saw acceleration in the expansion of cosmetics and skincare brands in the city's prime retail projects.

- In Q3/2016, city-wide retail sales reached RMB262.43 billion, up 8.8% year-on-year (YoY).
- In 2H/2016, two new prime retail projects entered the market, bringing overall retail stock up to 2.2 million sq m.

- City-wide first-floor prime retail rents averaged RMB16.1 per sq m per day in Q3/2016, with vacancy rates at 5.1%.
- In 2H/2016, first-floor prime area retail rents averaged RMB30.2 per sq m per day, with vacancy rates at 1.4%. Non-prime areas were much lower, at RMB12.8 per sq m per day, with vacancy rates of 6.4%.

"With competition increasing in the prime retail market due to the launch of new projects, future projects may experience some difficulties in carving out a niche for themselves. However, this could lead to some interesting tenant mix and operation strategies undertaken by existing retail projects in an attempt to stand out." Dave Law, Savills Research and Consultancy

→ Market overview

In Q3/2016, growth rates slowed, with overall retail sales reaching RMB262.48 billion, up 8.8% YoY. Commodity retail reached RMB242.54 billion, up 8.5% YoY, while catering reached RMB20.94 billion, up 11.6% YoY.

Supply

2H/2016 saw the launch of two new prime retail projects, totalling 202,000 sq m, resulting in overall prime retail stock reaching 2,200,000 sq m.

Gpark

Gpark, a shopping street developed by the Laochenggen Investment Company, launched phase one in October 2016. Located at the intersection of Xinghuo Road and East Daxing Road, the project enjoys convenient transportation links, with several bus routes connecting the project to the city.

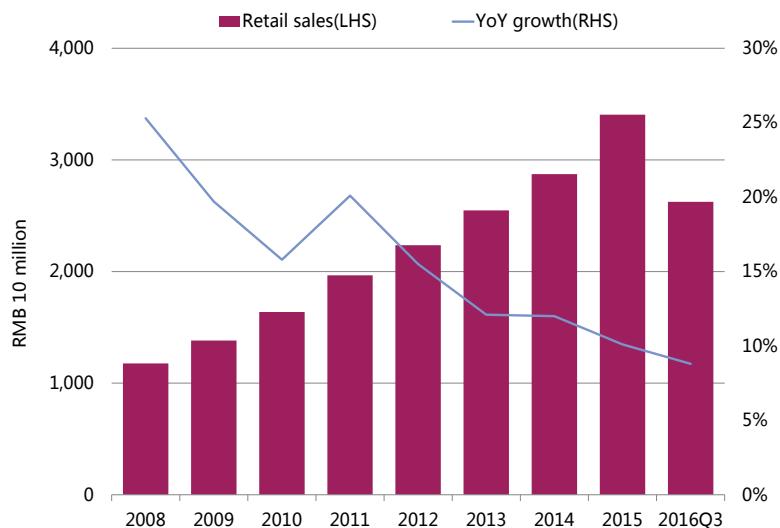
Phase one, with a total GFA of 114,000 sq m, includes catering, entertainment and fashion elements, and has introduced first-time brands to the Xi'an market: Pandora, NPC, and Pull and Bear.

Zhongda International The City

Zhongda International The City, located at the intersection of Gaoxing Road and 2nd Keji Road, opened in November 2016. The project is currently on several bus routes and will be connected to 2nd Keji Road Station (metro line 6), which is expected to begin operation in 2021.

Consisting of a shopping mall, the Ritz-Carlton Hotel and high-end residential units, the project has a total GFA of 320,000 sq m, with the mall contributing 88,000 sq m. Positioned as a high-end mall, the developer has also introduced many experiential brands, including catering, entertainment and children-related retailers. The mall also introduced first-time entries to northwest China (Qeelin, Vivienne Westwood, and Starbucks Reserve), as well as the first i.t store in Xi'an.

GRAPH 1
Retail sales, 2008-Q3/2016



Source: Xi'an Bureau of Statistics, Savills Research

Rents

Shopping mall first-floor rents increased 0.66% quarter-on-quarter (QoQ) in 2H/2016, to RMB16.1 per sq m per day. In prime retail areas, rents increased 0.03% YoY to RMB30.2 per sq m per day, and non-prime retail areas saw rents increase 0.8% YoY to an average of RMB12.8 per sq m per day.

The launch of new prime retail projects in 2016 saw the city's prime retail first floor rents steadily increase. Due to location and brand attractiveness, prime retail areas saw the rents of high-end projects such as Zhongda International and Century Ginwa Shopping Center continue on an upward trend. In non-prime retail areas, new projects such as City-on, Zhongda International The City and Sunshine Paradise have not only led to the upgrading of the non-prime area atmosphere and tenant mix, but also brought more brands, consumers and awareness to the area, thus pushing up rents.

Vacancy rates

City-wide prime retail project vacancy rates increased 0.9 of a percentage point (ppt) in 2H/2016 to 4.7% QoQ. However, prime area vacancy rates

decreased 0.4 of a ppt to 1.4% QoQ. Non-prime vacancy rates increased 1.4 ppts to 6.4% QoQ.

Benefiting from a central location, prime retail areas are still the first choice for brands entering the city. Cosmetics and skin-care brands have accelerated the opening of new stores. The second half of 2016 saw many brands, such as Bobbi Brown, YSL, Lancôme, MAC and Innisfree open stores in the prime retail area. Most retail projects in the prime retail area are department stores. This type of store is experiencing increased competition, leading to some undergoing a tenant adjustment, such as Wanfujing, which is expected to introduce Luxemporium, a high-end collective store on its second floor, resulting in an increase in vacancy rates.

In non-prime retail areas, most new projects continued to attract new brands, and malls such as Incity introduced Uniqlo and Under Armour. However, there are still some shopping malls recording high vacancy rates, and which continue to increase due to competition in the area or operational strategy adjustments. For example, SCPG bought Taibai Incity, which is

now undergoing a repositioning and tenant upgrading process. As a result, vacancy rates increased.

Market information

- In Q3/2016, the first Marc O'Polo store in the city opened in Wangfujing. Marc O'Polo is a Swedish-German fashion and accessories brand. The brand first entered China in 2014 when it opened a store in Shanghai. It then went on to open several stores throughout the country in cities such as Chengdu, Beijing and Tianjin. During 2H/2016, Marc O'Polo launched in Gendale Plaza and Gpark after opening a store in Wangfujin.

- The first Harbor House in the city opened in Wangfujin during Q3/2016. Harbor House was created by an American interior design team, and the store stocks furniture, textiles, bathroom accessories and other home related items. In addition, it also provides home interior decorating services.

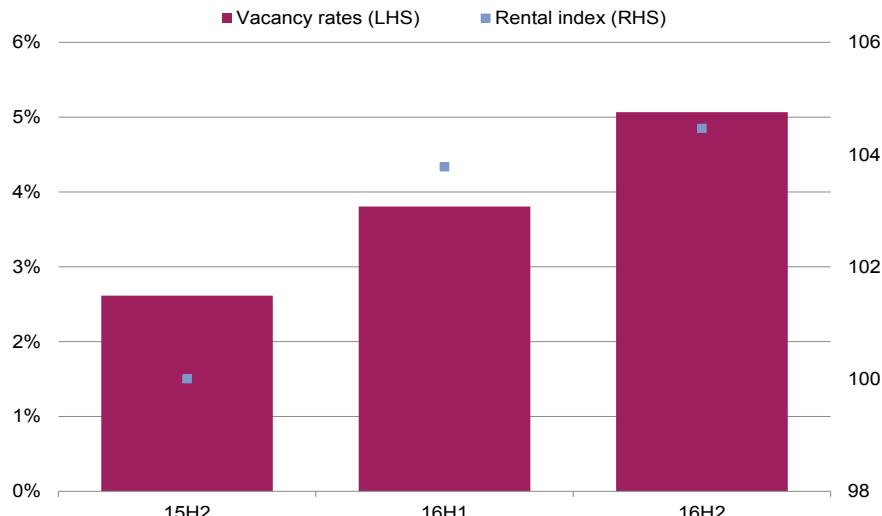
- In Q4/2016, the first NPC store in northwest China opened in Gpark. NPC is a fast-fashion collective brand created by well-known VJ Nic Li and singer Wilber Pan. The store stocks brands such as Nic Is Coming, Nike and G-shock. This is the seventh store NPC has opened in mainland China, the others being in Beijing, Shanghai, Hangzhou, Chengdu and Nanjing.

- Qeelin, a luxury jewellery brand and one of the biggest in China, opened in Q4/2016 in Zhongda International The City. Qeelin was created by a Chinese jewellery designer and French businessman in 2004 and combines western and eastern design elements into each piece.

- In Q4/2016, the first Starbucks Reserve store opened in Zhongda International The City. In addition to the traditional Starbucks facilities, the Starbucks Reserve has also introduced a handmade coffee bar. Coffee

GRAPH 2

Retail market rental index and vacancy rates, 2H/2015-2H/2016



Source: Savills Research

beans are selected and beverages made by certified coffee masters. In addition, they have an open kitchen design, encouraging consumers to communicate and interact with the coffee masters.

Market Outlook

By the end of 2019, Xi'an is expected to see over 3 million sq m in prime retail projects and is therefore likely to show the following trends:

- With diminishing land supply available in prime areas, as well as retail demand levels being met, developers are expected to focus more attention on non-prime areas. This will lead to the expansion of the city's retail footprint.

- As retail supply continues to increase, and competition from e-commerce continues to put pressure on brick and mortar retail, the city's once popular traditional department stores are facing an uncertain future. 2016 saw the closure of Century Ginwa Qujiang and Parkson Dongda Street, a trend which is expected to continue. Department stores are becoming extinct; giving in to

one-stop shopping malls, unless they actively adjust tenants and upgrade retail formats to better meet consumers' needs.

- In order to retain consumers, attract new ones and stand out amongst the competition, existing prime retail projects are expected to improve on tenant mix as well as operation management and promotional activities, such as exhibitions. In addition, due to a tight market, future projects are expected to delay launching in order to avoid oversupply, or more time may be needed to secure an adequate tenant mix or adjust the project's market positioning. ■

Project Focus

MixC

Xi'an MixC is located on Sanqiaoxin Street in the Weiyang District. It connects with several bus routes and is next to Sanqiao metro station (line 1). The project includes a shopping mall (236,000 sq m), a shopping street (16,000 sq m), an office building (85,000 sq m) and two mixed-use SOHO buildings (67,000 sq m).

The Xi'an MixC, positioned the same as previously-launched MixC projects, will introduce both international and domestic first-tier brands, and is a one-stop shopping mall with experiential retail formats such as catering and entertainment.

TABLE 1

MixC

Location	Sanqiaoxing Street, Weiyang District
Developer	China Resources
Retail GFA	235,000
Expected handover	Q2/2017



Source: Savills Research

Please contact us for further information

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