

Briefing Retail sector

January 2018



Image: T11 Block, No.11 Tangyan Road, Hi-tech Zone.

SUMMARY

Several shopping malls repositioned themselves during 2H/2017, through developing themed blocks or through conversion into other forms of commercial property.

■ 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%.

"During 2017, a number of domestic and foreign developers expanded into Xi'an shopping malls, such as Joy City, SKP and LIVAT. This had a significant impact on Xi'an's retail market, as these new projects introduced a range of new brands and fresh operational strategies."

Dahuang Chen, Savills Research

→ Economic Overview

Consumer goods retail sales in Xi'an reached RMB305.7 billion, up 10.8% year-on-year (YoY) for the first three quarters of 2017. By sector, the catering sector sales totalled RMB24 billion, up 6.9% YoY; meanwhile wholesale and retail sales totalled RMB282 billion, up 11.1% YoY. The consumer price index increased 1.7% in Q3/2017, compared with the same period last year.

Supply

In 2H/2017, five new projects opened with a total of 361,000 sq m new retail space, pushing the total stock of Xi'an's retail property market up 6.3% HoH to 2.8 million sq m.

T11 Block

T11 Block is the first retail amenity in the Hi-Tech Zone that mainly caters for tenants in the nearby office buildings. With a GFA of 40,000 sq m, the project focuses on fashion and F&B. Major tenants include Huawei, Topsports, Adidas, Puma, Burger King, Kafelaku Coffee, VK Fitness Club and Oscar Cinema.

Longshou Plaza

Located in Weiyang District, connecting with Metro Line 2, Longshou Plaza has a GFA of 50,000 sq m. The project covers fashion, lifestyle, cinema, supermarket and F&B. Major tenants include Huawei, Ren Ren Le Supermarket, Watsons and Huawei.

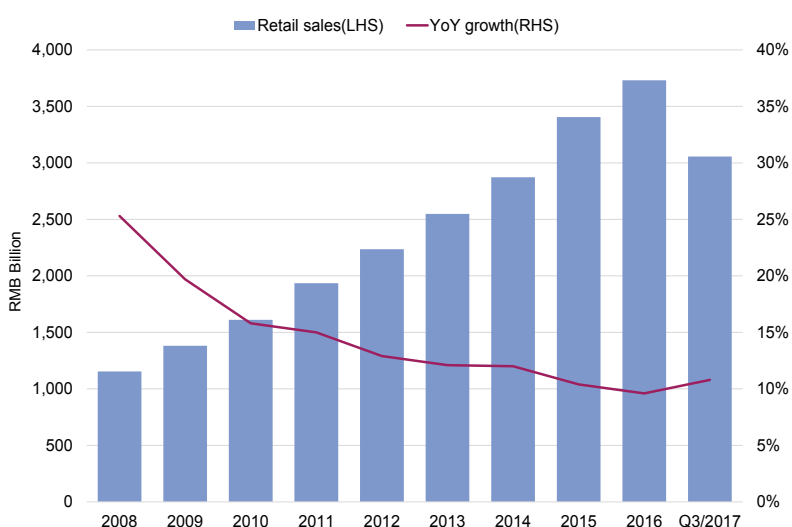
New Plaza

Located in Beilin District, New Plaza has a GFA of 80,000 sq m, the project focuses on lifestyle and F&B. Major tenants include Joy Family Supermarket, Burger King, HG Entertainment Studio, Tide House Fit and Yule Baby.

Wanda One

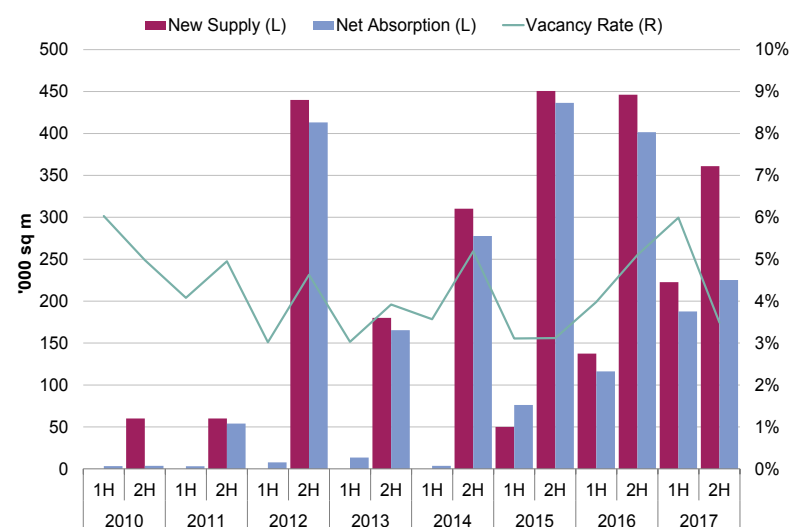
Wanda One is Wanda Group's first "One" branded shopping centre in China and its fourth project in Xi'an. With 150,000 sq m GFA, the project offers fashion, supermarket, lifestyle,

GRAPH 1
Retail Sales, 2008-Q3/2017



Source: Xi'an Bureau of Statistics, Savills Research

GRAPH 2
Demand and Supply, 1H/2010-2H/2017



Source: Xi'an Bureau of Statistics, Savills Research

children and F&B categories. The project hosts a total of 255 brands. Renowned tenants include Zara, Air Jordan, Yonghui Bravo Supermarket, Uniqlo, Superdry, Sisyphus Bookstore, Haidilao Hotpot and Wanda Kids Space.

Rainbow Gugu

Located in Qujiang District, Rainbow Gugu is the first mall in Xi'an that targets children. The 41,000 sq m

project focuses on child-related retailing and lifestyle shops. Key tenants include Nike Young Athletes, OVS Kids, Adidas Kids, and Goodboy.

Vacancy Rates

Demand was strong in 2H/2017, with total net absorption up 20.0% HoH to 225,223 sq m. As a result, the overall vacancy rate decreased by 2.5 ppts in 2H/2017 to 3.5%. Prime retail area

vacancy rates fell by 6.4 ppts HoH to 2.5% due to several shopping malls completed adjustment; non-prime retail area vacancy rates fell by 1.9 ppts to 3.6%, as shopping malls which recently opened in 2H/2017 had near full occupancy rates.

Several malls completed their adjustment on brands and sectors in 2H/2017, some of which developed themed blocks as response to the closure of their anchor department stores and some even turned into other types of commercial property.

For example: after Wanda Department Stores closed, Daminggong Wanda Plaza and Minleyuan Wanda Plaza developed the Tang Dynasty-themed blocks and the Aegean Sea-themed blocks; Greenland Life Mall turned into a Decoration City; and Yingyang Shopping Center turned into an Education and Training Mall.

Rents

First-floor rents increased by 2.0% HoH in 2H/2017 to RMB296 per sq m per month. The prime area witnessed a larger rental growth of 3.7% to an average of RMB428 per sq m per month, due to strong demand from mid-high brands but limited lettable space. Non-prime retail area rents just increased 1.5% HoH to an average of RMB269.6 per sq m per month.

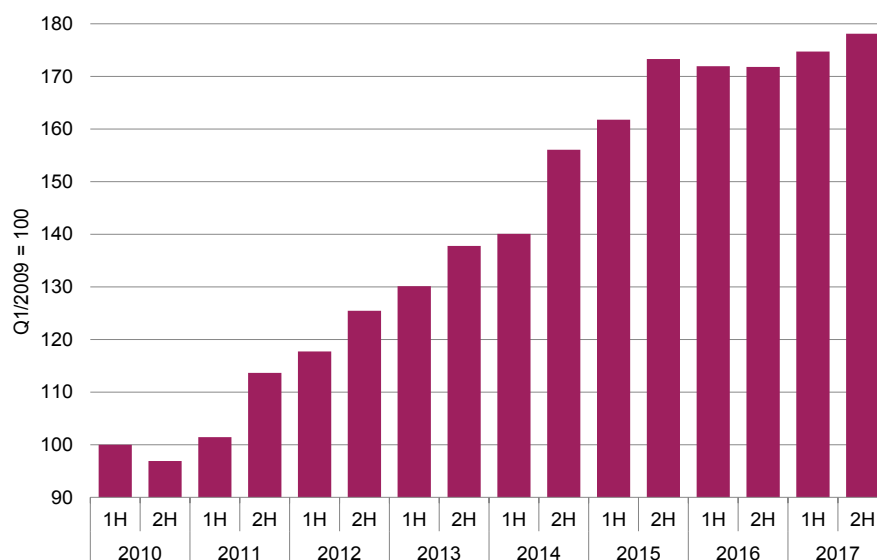
Tenant News

As a key economic centre in the northwest of China, Xi'an continued to attract a number of international brands in 2H/2017. Mid-to-high end malls that draw immense attention include Zhongda International Shopping Mall (High-tech Zone Store), City On Xi'an, MixC and Wanda One.

International Brands

Versace and Salvatore Ferragamo leased space in Zhongda International Shopping Mall; Air Jordan's first Xi'an store, Superdry,

GRAPH 3
Rental Index, 1H/2010-2H/2017



Source: Savills Research

Zara, Uniqlo opened in Wanda One; Under Armour leased space in City On Xi'an.

F&B

Haidilao Hotpot leased new spaces in G-park and CapitaMall Xindicheng; Burger King leased new spaces in New Plaza and Wanda One.

Lifestyle

Good Feeling Gym leased new spaces in Wanda One and Incity; Sisyphe Bookstore opened in Wanda One; HG Entertainment Studio opened in New Plaza.

Market Outlook

Xi'an retail market will continue to evolve and grow into a more vibrant retail property market in the next few years. The city is forecast to experience a supply peak in 2018 as several projects postponed their openings to 2018. The new year is expected to have 12 new projects, contributing approximately 1.2 million sq m GFA to the city's retail market.

As landlords or mall operators strive to maintain attractiveness and encourage high loyalty, more

tenant-mix adjustments will happen in 2018. Introducing popularity gaining experiential retail brands, and the hosting and organising of popular culture and entertainment events, which already have a wide fan base, are among the next successful targeted approach for existing malls.

The retail landscape of Xi'an will also continue to change as a number of domestic or foreign renowned developers are expanding into Xi'an, with projects, such as Joy City, SKP, LIVAT and Hang Lung Plaza already in the pipeline. The opening of these new projects will introduce a range of new brands and fresh operation strategies, as well as intensifying competition. ■


Project Focus

Xi'an Joy City

Xi'an Joy City is located in Yanta District, next to the Big Wild Goose Pagoda, which is one of the most famous tourist attractions in Xi'an. Thus, the project is expected to attract both local and foreign consumers.

Xi'an Joy City will follow the same positioning of other "Joy City" branded malls, housing both international and domestic famous brands. It will be a one-stop shopping mall with a particular focus on experiential retail format.

TABLE 1
Xi'an Joy City

Location	No.69 West Cien Road, Yanta District	
Developer	COFCO	
Retail GFA	146,000	
Expected handover	2018	

Source: Savills Research

Please contact us for further information

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