

Retail



New supply at historic high

Numerous new projects entered the market and stiffened competition among submarkets.

- Consumer good retail sales in Xi'an reached RMB331.7 billion in the first nine months of 2018, an increase of 10.5% year-on-year (YoY). By sector, F&B and catering sales totalled RMB27.1 billion, up 12.7% YoY, while wholesale and retail sales totalled RMB304.6 billion, up 10.3% YoY.
- Six new shopping malls opened in 2H/2018, pushing the total shopping mall stock up to 3.64 million sq m.
- Newly-opened projects in Xi'an set a whole new benchmark for many aspects of retail, from international brands to innovative operations.
- In 2H/2018, demand for retail space remained strong, increasing the city-wide net absorption area to 913,321 sq m GFA.
- The city-wide vacancy rate decreased by 0.6 of a percentage point (ppt) to 3.8% half year-on-half year (HoH).
- City-wide first-floor shopping mall rents increased by 0.8% half-year-on-half-year (HoH) to an average of RMB300.1 per sq m per month.
- Due in part to tenant adjustments in some shopping malls, the first-floor average rent of prime areas increased slightly by 0.3%

to RMB385.0 per sq m per month. However, boosted by rental increases of some projects in the Hi-Tech Zone and Qujiang area, first-floor average rent of non-prime areas increased by 1.0% to RMB279.7 per sq m per month.

- Xi'an is expected to welcome eight new projects, totalling 890,000 sq m, in 2019.

“Landmark projects such as SKP and Joy City have had a positive and profound impact on Xi'an's retail market, which was dominated by local developers. These new malls set a new benchmark for many aspects ranging from brand and tenant mixes to operational strategies.”

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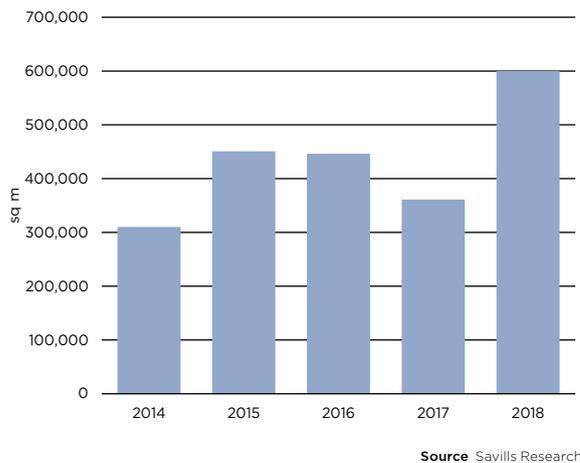
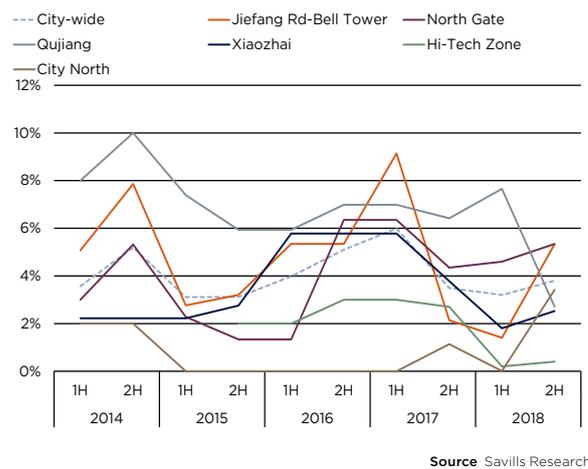
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GRAPH 1: Xi'an Shopping Mall Supply, 2014 to 2018**GRAPH 2: Xi'an Retail Submarket Vacancy Rates, Q1/2014 to Q4/2018****SUPPLY**

Six shopping malls, or 600,000 sq m of retail space, opened in 2H/2018, pushing total shopping mall stock up to 3.64 million sq m. A total of 11 projects entered the market and pushed city-wide retail property market stock to 5.5 million sq m in 2018, up 25.4% YoY.

New landmark projects such as SKP and Joy City have had a positive and profound impact on Xi'an's retail market, which was dominated by local developers. The new sites set a benchmark in the retail market for many aspects, ranging from brands and tenant mixes to innovative operation modes.

All of the new projects debuting in 2018 greatly expanded the capacity of the Xi'an retail property market, and introduced a large number of international brands to the market. According to "China Retail 20 City", released by Savills, the average number of luxury stores in Xi'an rose sharply in 2018, accounting for one-third of the nation's new luxury stores. As many international brands set foot in the city, Xi'an shows a strong upward trend in terms of retail index and market appeal.

Geographically, 70% of these retail projects are located outside the Second Ring Road while 50% are located in the southern part of the city. As Xi'an's population continues to grow in emerging markets, such as Hi-Tech Zone and Qujiang district, the retail property market will likely de-centralise to create multi-retail nodes in the city.

VACANCY RATES

Demand for retail space remained active in 2H/2018, with a net absorption of 913,321 sq m. Occupancy rates for new projects was high and the increase on net absorption was significant in 2018. Numerous new projects entered the market and intensified competition among malls and submarkets. City-wide vacancy rates increased by 0.3 of a ppt to 3.8%.

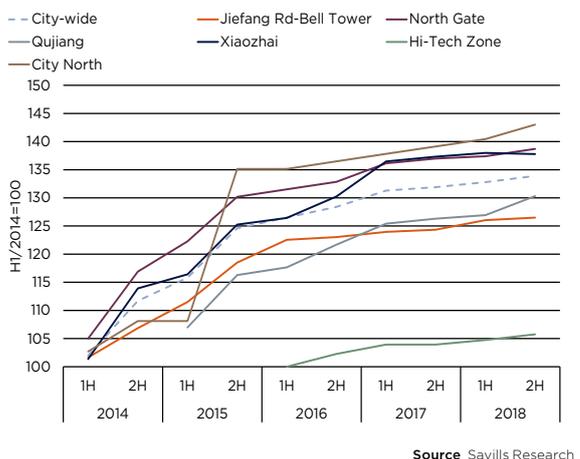
RENT

The city-wide average rent increased by 1.5% YoY, reaching RMB300.1 per sq m per month by the end of 2018. As demand for prime areas remained high but lettable space was limited, landlords had more bargaining power. Thus, prime rents grew 1.8% YoY to RMB385.0 per sq m per month. Due to improvements in operational conditions and tenant mixes in non-prime areas, landlords were successful in attracting brands. Vacancy rates improved by 1.5% YoY to reach RMB279.7 per sq m per month.

MARKET OUTLOOK

Moving forward into 2019, Xi'an is expected to welcome eight projects or around 890,000 sq m of retail space. The city will continue to experience a supply peak until 2020, which will further intensify competition and promote tenant mix adjustments and brand repositioning in existing projects. Therefore, the overall vacancy rate is estimated to show an upward trend. However, with a slowdown of new supply expected after 2019, the supply and demand equilibrium will become balanced, and the city-wide vacancy rate will be gradually reduced.

Xi'an's future supply of high-profile projects is estimated to be ranked third (by GFA) in China. With the opening of new projects bringing in more new brands and energising the retail scene, Xi'an's retail property market will experience a significant upgrade. The increase in new high-quality supply will create multiple supply peaks and subsequent challenges for existing department stores. Thus, landlords are expected to be more proactive in facing these challenges by adjusting tenant and brand mixes, creating omni-channel shopping, adding more experiential retailers, and improving the quality of service to satisfy consumer demand.

GRAPH 3: Xi'an Retail Submarket Rental Index Q1/2014 to Q4/2018**TABLE 1: Future Projects in 2019**

PROJECT	RETAIL GFA (SQ M)	SUBMARKET	DEVELOPER
Golden Eagle-Zhongdeng	138,000	Weiyang	Zhong Deng Group
Hi-Tech New World	40,000	Hi-Tech	Xi'an Haikhe Zhonggong Investment Co. Ltd.
CapitaMall La Botanica	50,000	Baqiao	CapitaMalls Asia and Henderson Land
Longfor Paradise Walk	77,000	Baqiao	Longfor Group
Yi Tian Holiday Village	80,000	Hi-Tech	Yi Tian Group

Source: Savills Research