

Retail



Fashion retailers expand in Xi'an

With Xi'an's ongoing development as an international consumer city, the retail market continued to mature and attract world-renowned brands.

- Consumer goods sales in Xi'an reached RMB17.5 billion in Q1/2019, an increase of 5.6% year-on-year (YoY). By sector, F&B and catering sales totalled RMB9.9 billion, up 12.1% YoY, while wholesale and retail sales totalled RMB10.7.6 billion, up 5.1% YoY.
- CapitaMall Yujincheng, located in Chanba district, launched in 1H/2019 and added 66,000 sq m to citywide retail stock. The new project broadens Xi'an's retail map and changes the business landscape in western Xi'an.
- Following the closing of Century Ginwa-South Gate department store in early 2019, Minsun-North Street store officially closed in Q2/2019, resulting in a decline in the total department store stock.
- Tenant adjustments in some projects did not fulfill expectations. The departure of several brands was one of the reasons why citywide vacancy rates increased by 0.4 of a percentage point (ppt) half-on-half (HoH) to 4.0%.
- However, the overall market remained positive and stable, with the citywide average first-floor rent for shopping malls rising by 0.3% HoH to RMB291.6 per sq m per month.
- With the city's borders and consumer population expanding, new projects are gradually decentralising and clustering in different locations—a trend that is posing a challenge to projects in prime areas.

“New supply in 2018 pushed Xi'an's total retail stock to historically high levels, and upcoming new projects will further stiffen market competition. As developers and retail brands face an increasingly tough market, malls must innovate to stand out amongst their peers.”

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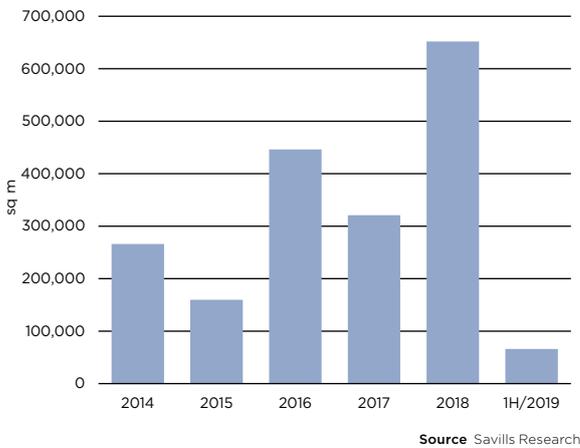
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GRAPH 1: Xi'an Shopping Mall Supply, 2014 to 1H/2019



SUPPLY

CapitaMall Yujincheng, located in Chanba, launched in 1H/2019 and added 66,000 sq m to citywide retail stock. The new project broadens the Xi'an commercial map and changes the retail landscape for high-quality shopping malls in western Xi'an. Following the closing of Century Ginwa-South Gate in early 2019, Minsun-North Street store officially closed in Q2/2019, resulting in a decline in the total stock of Xi'an department stores. By the end of the first half of 2019, the total stock of retail properties stood at approximately 5.51 million sq m.

VACANCY RATES

Due to the excess of new supply in 2018, retail market competition has intensified, however tenant adjustments in some projects have not met with expectations. The departure of several brands—mainly fashion brands—was one of the reasons why the citywide average vacancy rate increased by 0.4 of a ppt HoH to 4.0%. Vacancy rates in the prime retail areas (Bell Tower-Jiefang Road and Xiaozhai) increased by 0.5 of a ppt HoH to an average of 4.7%, while non-prime areas saw significant supply, which caused the average shopping mall vacancy rate to increase by 0.3 of a ppt to 3.8%.

RENT

The consumer market expanded in 1H/2019, and an increase in overall consumption levels supported the growth of Xi'an's retail property market. As the overall market remained optimistic, the average citywide first-floor rent of shopping malls rose by 0.3% HoH to RMB291.6 per sq m per month. The first-floor average rent in non-prime areas increased by 0.1% HoH, while that in prime areas rose by 0.3%.

TENANT NEWS

The 2019 Xi'an International Fashion Week was held during the first half of the year, accelerating the integration of the ancient, cultural side of the city with a more modern, fashionable scene. Unlike the 2018 Fashion Week, designer brands gained more attention at the 2019 iteration of the event. In 1H/2019, top New York designer brand Heron Preston opened its first store on the first floor of Zhongda International at South Gate

while French jewellery designer brand Cambas debuted at Hi-tech Zhongda International.

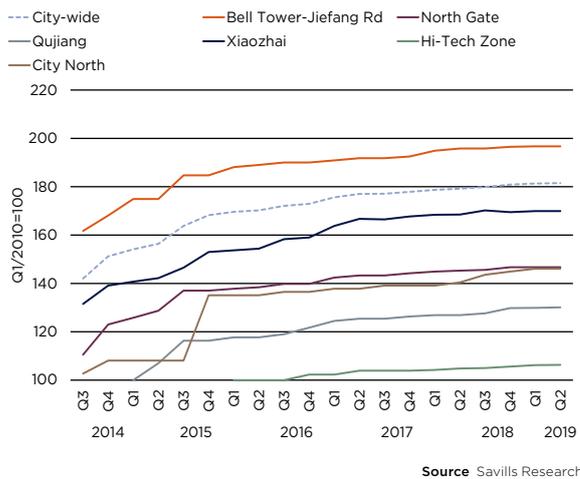
In addition, some commercial projects in Xi'an accelerated their brand adjustment plans. Italian women's fashion label Elisabetta Franchi launched in Zhongda International mall while streetwear brand CHOR ventidue from New York debuted at Xi'an Yitian Holiday World. Brands such as Hollister and NARS Cosmetics (the brand's first store in northwest China) opened in Joy City, and Champion, Givenchy Beauty and Pandora opened in IMIX Park. The increasingly rich variety of brands being introduced to the city not only makes the commercial brand mix more dynamic but also provides consumers with more choices.

New Retail is growing in other parts of the city too with the opening of Hema Fresh in three locations—New Plaza, Minsun department store and Easyhome—thus completing the brand's plan to open ten stores in Xi'an within one year. Seven Fresh also stepped up its pace of expansion, adding two new stores, in Zhongdeng Square and Wanhe City. Additionally, Su Fresh opened its second store in Haijing Xintiandi. The expansion of New Retail outlets provides consumers with greater variety and more efficient services and improves the overall retail environment.

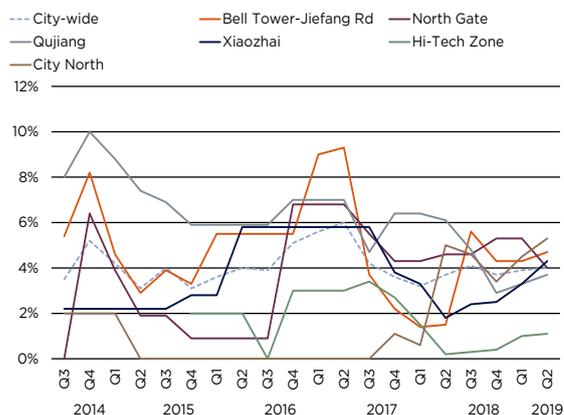
MARKET OUTLOOK

Xi'an will see around 800,000 sq m of new supply added to the retail market in the second half of 2019. The new supply will cause older projects to readjust their tenant mixes. It is expected that the retail vacancy rate will continue to rise, and rent will come under pressure in the short term. In the constantly changing consumer landscape, many small-scale commercial projects are entering the market, including W Five Park, Hanhua City Sweetheart Square, Fashion Street and Nanfeihong-Happy Life Plaza. These types of projects not only increase the richness of the Xi'an retail market but also bring new challenges to traditional shopping malls and department stores. Consumers are paying more attention to their quality of life and are looking for retail diversity. Evolving consumption habits will accelerate the adjustment and renewal of Xi'an's overall retail property market.

GRAPH 2: Xi'an Retail Submarket Vacancy Rates, Q3/2014 to Q2/2019



GRAPH 3: Xi'an Retail Submarket Rental Index Q3/2014 to Q2/2019



Note: Calculation of rental indices for all submarkets starts from Q1/2010 except for: North Gate - Q4/2012; City North - Q1/2014; Qujiang - Q1/2015; Hi-Tech Zone - Q1/2016

TABLE 1: Future Projects in 2H/2019

PROJECT	RETAIL GFA (SQ M)	SUBMARKET	DEVELOPER
Lucky King International Plaza	210,000	Hi-Tech	Lucky King Real Estate Development Co. Ltd
Daminggong Shopping Centre	230,000	North Gate	Xi'an Daminggong Group Co., Ltd
Zhongdeng Mall	138,000	City North	Zhong Deng Group

Source: Savills Research