

# Retail



## Retail vacancy rate increases

Brands continued to expand in Q3/2019, while some older projects underwent renovation works to remain relevant.

- Consumer goods sales in Xi'an reached RMB231.0 billion in 1H/2019, an increase of 5.9% year-on-year (YoY). By sector, F&B and catering sales totalled RMB19.0 billion, up 9.7% YoY, while wholesale and retail sales totalled RMB212.0 billion, up 5.6% YoY.
- Zhongdeng Square with 138,000 sq m, Rongmin Times Square with 125,000 sq m, and Xixian Wuyue Plaza with 62,000 sq m all launched in Q3/2019. The trio of sites added 320,000 sq m of new supply to the market and pushed the total retail stock in Xi'an to 5.83 million sq m.
- Due to the impact of 2018's significant supply, some projects were under leasing pressure and adjusted their tenant mixes, which is the main reason citywide vacancy rates have risen for four consecutive quarters. The citywide vacancy rate increased by 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.3%.
- The citywide first-floor rent of shopping malls held stable at RMB286 per sq m per month.
- Project upgrades across the city have brought more choices to consumers.
- Many high-quality projects have entered the Xi'an market, which has improved the overall commercial offerings across the city. For many existing projects, property renovation has become a necessity.

“The development of commercial real estate in Xi'an has entered a critical period, as significant future supply is expected to come to market, causing the Xi'an retail market to decentralise further.”

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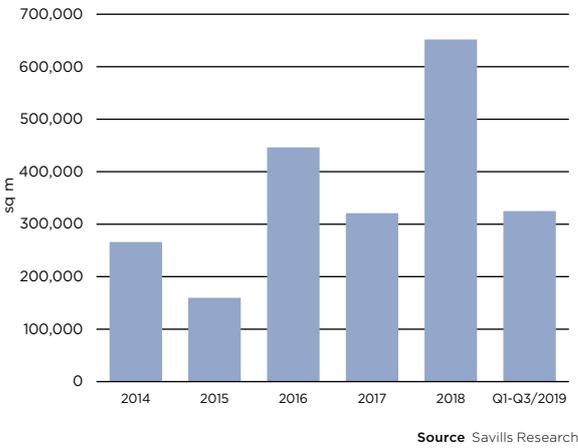
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#### RETAIL

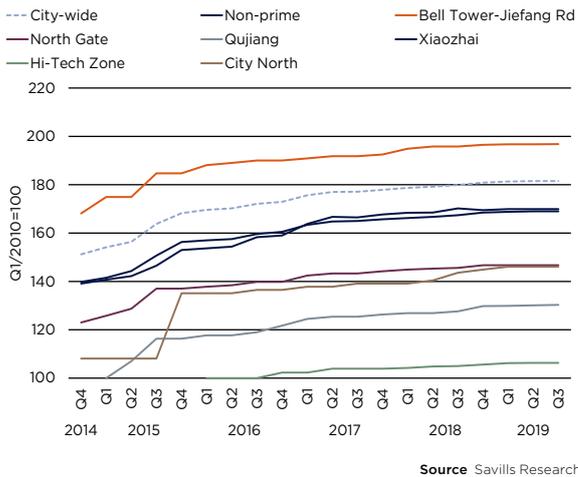
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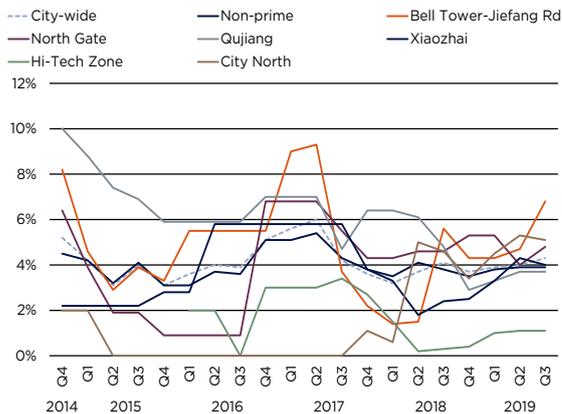
**GRAPH 1: Xi'an Shopping Mall Supply, 2014 to Q3/2019**



**GRAPH 2: Xi'an Retail Submarket Vacancy Rates, Q4/2014 to Q3/2019**



**GRAPH 3: Xi'an Retail Submarket Rental Index, Q4/2014 to Q3/2019**



**SUPPLY**

Zhongdeng Square with 138,000 sq m, Rongmin Times Square with 125,000 sq m, and Xixian Wuyue Plaza with 62,000 sq m all launched in Q3/2019. The trio of sites added a total of 320,000 sq m of new supply, pushing the total retail stock in Xi'an to 5.83 million sq m. The opening of Zhongdeng Square provides more choices for consumers in City North, Rongmin Times Square adds more regional vitality into North Gate, and the opening of Xixian Wuyue Square adds another important shopping mall to Xixian New Area.

**VACANCY RATES**

Due to the impact of the supply blowout last year, some projects had to adjust to the new leasing pressure and deal with tenants leaving. This development was the main cause of citywide vacancy rates rising for four consecutive quarters. The citywide vacancy rate increased by 0.3 of a ppt QoQ to 4.3%.

**RENT**

Citywide, first-floor shopping mall rent stayed essentially the same as that of the previous quarter at RMB286 per sq m per month.

**TENANT NEWS**

According to Savills newly released “20 Cities in China retail” report, Xi'an was the only city rising in the retail index among national cities, which shows this city has significant market potential and brand appeal. Brands across a wide spectrum of categories maintained their positive expansion trends in Q3/2019. HEA, a Chinese fashion brand, opened three new stores in Q3/2019. Fjallraven, a Swedish outdoor brand, opened its first store in northwest China in Zhongda International Mall — Hi-Tech Zone; American cosmetics brand NARS opened its second store in SAGA International Shopping Center; Victoria's Secret opened in IMIX PARK; and Lego opened a new store in Zhongda International — South Street.

In addition, the demand for electronic products continued to be active. The first authorised Huawei experience store, PLUS, in northwest China opened at the Century Ginwa — South Gate. The first 5G Vivo smart

flagship store in northwest China opened in the Century Ginwa — Hi-Tech Zone while OPPO's super flagship store opened in CityOn. Vipshop's offline store has been expanding in the Xi'an market since Q2/2019; after opening stores in Longshou Plaza and Fashion Street, the brand accelerated its expansion this quarter with a new store in Zhongmao Square and some community projects. E-commerce platforms are building their offline networks in order to enhance the member experience and deepen ‘user stickiness’.

Numerous high-quality projects have launched in Xi'an in recent years, and improved the overall commercial experience. For many existing projects, property renovation has become a necessity.

The renovation of Zhongda International — South Street has gained widespread attention. After the shopping centre introduced Shanghai READWAY and added high-end dining spaces earlier this year, brands such as I.T, Heron Preston and Starbucks Reserve moved in, pushing the project to a new level. Morii, a ‘vintage lifestyle’ social space, also opened in Zhongda International. The sector adjustment in SAGA has been equally substantial, with luxury retailers taking up more prime mall space. Lego, Luckin Coffee and Salvatore Ferragamo all opened stores on the first floor of Wangfujing Department Store while Starbucks Reserve opened on the first floor of Century Ginwa — South Gate. These retail upgrades have brought a greater array of choices to consumers in the area.

**MARKET OUTLOOK**

In Q4/2019, about 300,000 sq m of retail space is expected to enter the market. The new supply may push projects to accelerate their adjustment plans to cope with increased competition. Although the vacancy rate is expected to rise in the short term, the sustained entry of new developers and well-known brands to the market should help Xi'an to optimise its retail infrastructure. Concurrently, the increasing city level and stable retail consumption will continue to support the city's retail development.

**TABLE 1: Future Projects In Q4/2019**

PROJECT	RETAIL GFA (SQ M)	SUBMARKET	DEVELOPER
Lucky King International Plaza	210,000	Hi-Tech	Lucky King Real Estate Development Co., Ltd
Yi Tian Holiday Village	80,000	Hi-Tech	Yi Tian Tourism Commercial Properties
Dahua 1935	84,000	North Gate	Fudi Group

Source: Savills Research