New supply at a five-year low

Five new projects entered Xi’an retail property market this year, bringing a total of approximately 470,000 sq m of new supply to the market.

- Consumer goods sales in Xi’an reached RMB302.530 billion in 2019, an increase of 5.7% year-on-year (YoY). F&B and catering sales totalled RMB29.1 billion, up 7.9% YoY, while wholesale and retail sales totalled RMB214.3 billion, up 5.5% YoY.

- Five new projects entered Xi’an retail property market in 2019, bringing a total of approximately 470,000 sq m of new supply to the market.

- The traditional department stores crisis continues. Three department stores closed in 2019, and a total of seven stores have closed in the past three years, which reflects the difficulties faced by department stores across the city. By the end of 2019, the total stock of retail properties stood at approximately 5.79 million sq m.

- Competition intensified in 2019 due to the supply blowout last year. Projects continued to feel pressure and the citywide vacancy rate rose 0.9 of a percentage point (ppt) to 4.5% YoY.

- Many projects are adjusting their tenant mixes and renovating in order to enhance their competitiveness. The increase in retail performance of some of these projects has pushed the citywide rent up by 0.4% to RMB286 sq m per month.

“In the next few years, no new projects are expected in Xi’an’s core areas, so it will be important for developers to focus on project renovations and innovative experiences.”

SOPHY PAN, SAVILLS RESEARCH
Retail

**SUPPLY**
Five new projects entered the Xi'an retail property market in 2019, bringing a total of approximately 470,000 sq m of new supply to the market, a five-year low for the city. The retail stock among the city's submarkets is relatively balanced as of Q4/2019. The difference in stock between the highest and the lowest areas is only 4%. New supply is mainly regional and community retail property.

The crisis of traditional department stores continues. Three department stores closed in 2019, and a total of seven stores have closed in the past three years, reflecting the difficulties faced by department stores. The total stock of retail properties stood at approximately 5.79 million sq m by the end of Q4/2019.

**VACANCY RATES**
Competition intensified in 2019 due to the supply blowout last year. Projects continued to be under pressure, and the citywide vacancy rate has continued to rise, up 0.9 of ppt to 4.5% YoY. Demand for shopping malls in commercial circle showed signs of fatigue, with vacancy rates rising 3.6 ppts YoY to 7.9%, while non-core vacancy rates rose 0.4 of a ppt YoY to 3.9% due to the entry of some projects with low opening rates.

**RENT**
Many projects are undergoing tenant adjustments and renovations to enhance their competitiveness. These upgrades have improved the retail environment and helped push the citywide rent up 0.4% to RMB286 sq m per month.

**TENANT NEWS**
Many domestic and international brands entered Xi'an for the first time in 2019, including the Korean fashion brand Gentle Monster and French luxury brand Chanel opening stores in SKP. The first Northwest China store for Swedish outdoor brand Fjall Raven opened in Zhongda International – High Tech. American fashion brand Heron Preston opened in Zhongda International – South Gate, while Canadian fashion sports brand Lululemon and American fashion brand Hollister opened at Joy City. Danish toy brand Lego opened their first store on the first floor of Wangfujing Department Store.

The opening of many high-quality projects in non-core areas has accelerated the change in Xi'an's business landscape. The core areas, centred on the Bell Tower, historically held an important position in Xi'an. However, recently, vacancy rates are increasing as the city's retail facilities decentralise. During 2019, there were numerous renovations in core areas. Typical examples of upgrades include adding culture and fashion elements into retail sections and opening vintage lifestyle social spaces to increase non-retail consumers. In the next few years, as there are no new projects expected in the city's core area, renovations will become an increasingly important method to compete in Xi'an's increasing fierce retail landscape.

**MARKET OUTLOOK**
In 2020, Xi'an is expected to see more than 600,000 sq m of new supply, but all located in non-core areas. Projects in the core areas will have to adjust and innovate regain and retain popularity. With the emergence of Xi'an's nighttime economy, the development of “full-time” retail will help drive demand for F&B retailers such as casual dining and bars in the future. Quality consumption and household consumption will continue to be a driving force in the city, with daily necessities, furniture, home furnishings, children-related facilities, cultural and entertainment-related businesses expected to remain active.

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

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>RETAIL GFA (SQ M)</th>
<th>SUBMARKET</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucky King Urban Life Centre</td>
<td>210000</td>
<td>Yanta</td>
<td>Xi'an Lucky King Group &amp; China Railway Airport Construction Group</td>
</tr>
<tr>
<td>Xi'an Taiyi City Shopping Center</td>
<td>60000</td>
<td>Xiaozhai</td>
<td>Shaanxi Hualong Group</td>
</tr>
<tr>
<td>Longfor Paradise Walk</td>
<td>77000</td>
<td>Baqiao</td>
<td>Longfor Properties</td>
</tr>
</tbody>
</table>

_Note: Calculation of rental indices for all submarkets starts from Q1/2010 except for: City North – Q2/2014; Quijiang – Q1/2015; Hi-Tech Zone – Q1/2016._