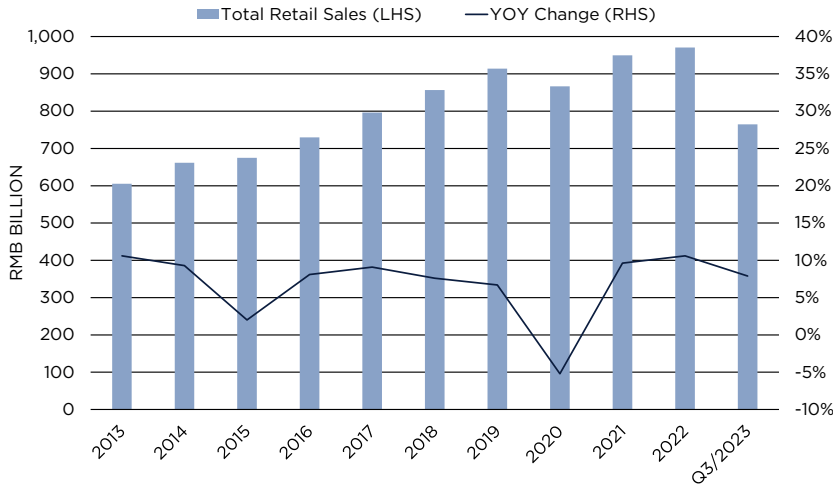


# Shenzhen Retail



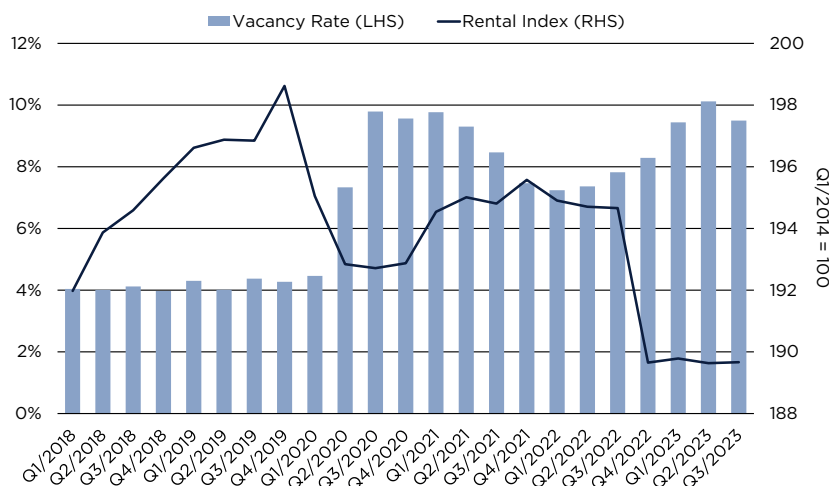
# First-store economy fuels market recovery

**GRAPH 1: Shenzhen's Retail Sales and YoY Growth Rate, 2013 to Q3/2023**



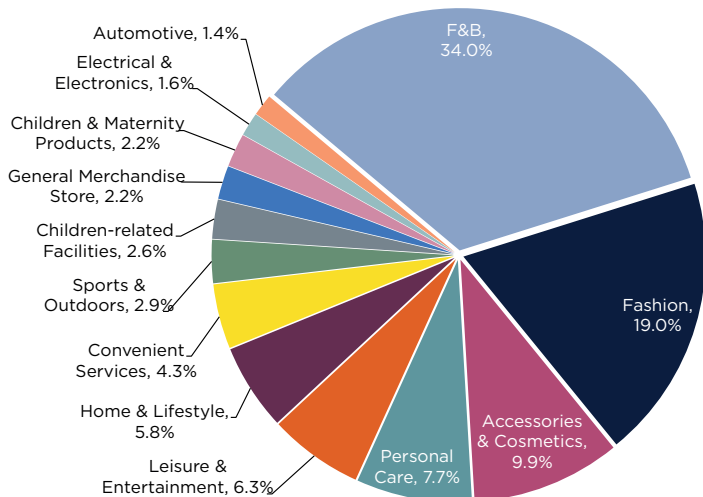
Source Shenzhen Statistics Bureau, Savills Research

**GRAPH 2: Shenzhen Retail Vacancy Rate and Rental Index, Q1/2018 to Q3/2023**



Source Savills Research

**GRAPH 3: Shenzhen Retail New Leasing Demand by Sector, Q1/2023 to Q3/2023**



Source Savills Research

## STRONG MACRO FUNDAMENTALS SUPPORTED THE CONSUMPTION MARKET RECOVERY

Shenzhen's GDP grew rapidly during the past decade with a CAGR of 9.3%. The economic resilience continued into 2023, with the GDP growth rate reaching 5.4% as of Q3/2023, which ranked second among China's first-tier cities. This, along with the city's growing TMT industry, attracted an influx of highly educated young migrants, especially high-net-worth IT specialists to the city, pushing up Shenzhen's permanent population to 17.7 million by end-2022, up 47.7% from 2012. Due mainly to this, Shenzhen managed to maintain the youngest demographic structure among all Chinese cities, with over 70% of its population falling into the age group of 20 to 35, reinforcing the city's consumption capacity and supporting the rebound of local consumptions during the post-Covid period. Meanwhile, given China's resumption of cross-border travelling since the beginning of 2023, the city also attracted growing cross-border consumptions from Hong Kong residents who made more than nine million trips to Shenzhen during the summer holiday season alone in July and August according to data from the Hong Kong Immigration Department. Benefiting from these, Shenzhen's retail sales grew by 7.9% YoY as of Q3/2023, 1.5 ppts higher than its neighbouring city of Guangzhou, and surpassing its own record in 2019 (up 6.8% YoY) before the pandemic. Notably, F&B became the most dynamic sector during the period and achieved double-digit growth, surging by 14.7% YoY.

## VACANCY RATE EDGED DOWN WITH F&B TAKING THE LION'S SHARE IN LEASING DEMAND

Strong demographic fundamentals and a faster-than-expected recovery of the local consumption market uplifted retailers' confidence in Shenzhen's retail property market, which supported the resumption of new leasing activities from a series of retail brands covering the F&B, fashion, accessories and cosmetics sectors during the first three quarters in 2023. Echoing this, the citywide average vacancy rate edged down 0.6 ppts QoQ to 9.5% by end-Q3/2023 after increasing for six consecutive quarters since Q2/2022 due to COVID disruptions.

Continuing the trend from the past few years, F&B brands remained one of the most important demand generators and

dominated the market in terms of demand growth by taking up 34.0% of the total new store openings for the first three quarters of 2023. Of all the F&B retailers, bistros and bakeries showed growing appetites for expanding in Shenzhen compared to other neighbouring cities in Guangdong, given a rising number of millennials and Gen Zers in the city who are commonly identified as their target clientele. This could be exemplified by the debut of Alimentari Mulino, Edmi Patisserie and Cycle&Cycle's first southern China stores at Futian COCO Park, Shenzhen Bay MixC and MixC

## The effect of the first store economy continues to ferment, attracting more new brands to open in Shenzhen, which is second to none in South China.

**TABLE 1: Selected New Store Opening, Q1/2023 to Q3/2023**

| BRAND             | SECTOR                   | PROJECT           | SUBMARKET |
|-------------------|--------------------------|-------------------|-----------|
| Laderach          | F&B                      | MixC              | Luohu     |
| ZIMMERMANN        | Fashion                  | MixC              | Luohu     |
| Gianvito Rossi    | Accessories & Cosmetics  | MixC              | Luohu     |
| Aesop             | Accessories & Cosmetics  | MixC              | Luohu     |
| Pomellato         | Accessories & Cosmetics  | MixC              | Luohu     |
| Jimmy Choo        | Accessories & Cosmetics  | MixC              | Luohu     |
| Moose Knuckles    | Sports & Outdoors        | MixC              | Luohu     |
| Peak Performance  | Sports & Outdoors        | MixC              | Luohu     |
| Luneurs           | F&B                      | MixC World        | Nanshan   |
| Cycle&Cycle       | F&B                      | MixC World        | Nanshan   |
| ANN ANDELMAN      | Fashion                  | MixC World        | Nanshan   |
| BY FAR            | Accessories & Cosmetics  | MixC World        | Nanshan   |
| Marni Market      | Accessories & Cosmetics  | MixC World        | Nanshan   |
| Le Labo           | Accessories & Cosmetics  | MixC World        | Nanshan   |
| Urban Decay       | Accessories & Cosmetics  | MixC World        | Nanshan   |
| Edmi Patisserie   | F&B                      | Shenzhen Bay MixC | Nanshan   |
| Canada Goose      | Sports & Outdoors        | Shenzhen Bay MixC | Nanshan   |
| HECHTER           | Fashion                  | Shenzhen Bay MixC | Nanshan   |
| Golden Goose      | Sports & Outdoors        | Shenzhen Bay MixC | Nanshan   |
| Tiffany& Co.      | Accessories & Cosmetics  | Shenzhen Bay MixC | Nanshan   |
| Apple             | Electrical & Electronics | Shenzhen Bay MixC | Nanshan   |
| sacai             | Fashion                  | Shenzhen Bay MixC | Nanshan   |
| Alimentari Mulino | F&B                      | Futian COCO Park  | Futian    |
| VERA WANG         | Fashion                  | One Avenue        | Futian    |
| Shushu/tong       | Fashion                  | UpperHills        | Futian    |

Source Savills Research

World respectively. Meanwhile, large-scale chained Chinese restaurants continued their business expansions by opening multiple new stores at different shopping centres, as were the cases of Song Hot-pot Factory's expansion at Maxland and INJOY, Micang's new stores at Futian COCO Park and Wanxiang Qianhai, and LAOWANHUI's new leases at Dream Center and Raffles City.

### POLICY INCENTIVES AND CONSUMERS' GROWING PURCHASING ASPIRATIONS SUPPORTED FIRST-STORE ECONOMY GROWTH

The Shenzhen government stepped up efforts to build the city into an international consumption centre, taking measures to boost the city's retail market development and stimulate consumption. In further promoting the city's first-store economy, the government announced to provide a maximum of RMB5 million financial rewards to enterprises/operators that attracted well-known retail brands to set up their first/flagship/boutique stores in Shenzhen. This along with residents' growing consumption desire contributed to a thriving first-store economy, reflected in the openings of 266 new first stores in the first three quarters of 2023, according to Commerce Bureau of Shenzhen Municipality. For example, after entering Shanghai in late 2022 and mid-2023, Aesop from L'Oréal and Le Labo from Estée Lauder chose to open their first southern China stores at The MixC and MixC World in Q3/2023; Urban Decay made its first presence in mainland China by opening a pop-up store at MixC World; Laderach launched its southern China first store in Q1/2023 at The MixC and expanded to Shenzhen Bay MixC and UNIWALK in the following quarters. VERA WANG and Shushu/tong opened their first stores in southern China respectively at One Avenue and UpperHills. During the same period, the internet-celebrity designer brand BY

FAR tapped into the southern China market by opening a new store at MixC World. Japanese designer brand sacai managed to get its new set at Shenzhen Bay MixC; sports and outdoors brands Moose Knuckles, Peak Performance and Canada Goose all debuted in southern China at different premises during Q3/2023.

### **LUXURY BRAND PENETRATION INCREASED WITH RESIDENTS' IMPROVING TASTE AND STRONG CONSUMPTION POWER**

The market has witnessed growing purchasing demand for luxury brands with the improving taste of the city's new-middle class, especially IT specialists with high consumption power, which in turn, boosted luxury retailers' sentiments about business expansions. Benefitting from this, luxury brand penetration increased continually in 2023, with new luxury brands setting up their first southern China/Shenzhen stores at prime shopping centres, as were the cases of ZIMMERMANN, Pomellato and Gianvito Rossi.

### **LANDLORDS REMAINED PRUDENT IN RENTAL ADJUSTMENTS DESPITE THE RECOVERED LEASING DEMAND**

Although retailers' expansion demand gradually recovered in 2023, most landlords and developers remained cautious in reviewing their tenant rentals and broadly kept their asking rental quoted since last year. As a result, the citywide ground-floor average rent stood at RMB567.0 psm pmth by Q3/2023, with the rental index remaining flat compared to the end-2022.

### **MORE GOVERNMENT EFFORTS AND GROWING DEMAND TO SUPPORT A POSITIVE RETAIL MARKET LANDSCAPE FOR SHENZHEN**

Shenzhen's retail sales are set to reach RMB1.7 trillion by 2030 and RMB2.5 trillion by 2035, according to a latest plan published by the city's commerce bureau in September 2023, which blueprinted to build five world-class landmark retail areas, including Luohu core commercial

district, Houhai-Shenzhen Bay commercial district, Futian central commercial district, the airport-world exhibition and convention center commercial district, and the Qianhai-Bao'an center commercial district. This should generate a strong impetus for the local retail property market in the long term, accelerating the existing prime retail area upgrades and boosting the emerging area development. For the upcoming 2024, Shenzhen should continue to be a strategic hub for high-end and luxury brands' business expansions in South China given the city's growing economy and strong consumption potential. Meanwhile, leasing demand from F&B and entertainment sectors is expected to grow continually given residents' growing consumption desire and the increasing popularity of new types of lifestyle, such as the "citywalk". These are expected to decrease the citywide average vacancy rate albeit the average rent should still decline structurally considering the impacts of new supply.



For more information about this report, please contact us

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