Leasing Demand Shrinks

Rents decreased by 3.7% half-on-half in 1H/2020.

- Retail sales of consumer goods in Fuzhou decreased to RMB158.74 billion, down 6.3% year-on-year (YoY), during the period from January to May 2020.

- No new supply entered the Fuzhou retail market, and Suning Plaza Phase II was temporarily closed for renovation and upgrade, leading the total stock of the market to contract by 8.0% YoY to approximately 2.1 million sq m.

- Leasing demand shrank as tenants saw significant pressure on their business operation and cashflows. This was the most prevalent in the F&B, fashion and entertainment (cinema) sectors.

- Overall, the citywide average vacancy rate for the Fuzhou retail property market rose by 1.5 percentage points (ppts) half-on-half (HoH) to 6.4%.

- The average rent of the Fuzhou retail property market fell by 3.7% HoH to RMB452.3 per sq m per month.

- Three new shopping centres with a combined retail GFA of approximately 402,900 sq m are scheduled to debut in 2H/2020.

- The citywide vacancy rate is expected to increase structurally, and the citywide average rent should continue to decrease in 2H/2020.

“Demand from the skincare, cosmetics and perfume, home and lifestyle sectors remained resilient, while that from the entertainment sector softened.”

CARLY XIE, SAVILLS RESEARCH
SUPPLY
During 1H/2020, no new supply entered the Fuzhou retail market. Meanwhile, Suning Plaza Phase II was temporarily closed for renovation and upgrade. Collectively, this caused the total stock of the market to contract by 8.0% YoY to approximately 2.1 million sq m. Dongjiekou, East 2nd Ring, Wanbao and Pushang are the prime retail catchments in the Fuzhou retail market, collectively accounting for 76.3% of the total. Other secondary prime retail catchments include Wusi North, Taijiang Pedestrianised Street, Exhibition Centre and Olympic Centre and others.

DEMAND
Due to the COVID-19 pandemic and its related quarantine measures executed during the epidemic in the locality, retail stores with primarily experiential trade-mixes, including cinemas, KTVs, arcades, etc, were called by the government for temporary closure. This resulted in a plummet in footfall at most shopping centres. With severe impacts on business operations and tightened cashflows, retail leasing demand shrank as a result, and this was the most prevalent in the F&B, fashions and entertainment (cinema) sectors. In some extreme cases, some tenants had to terminate their leases or reduce their leased areas during this hard time. Correspondingly, the citywide average vacancy rate for the Fuzhou retail property market rose by 1.5 ppts HoH to 6.4%. By contrast, demand from the skincare, cosmetics and perfume, home and lifestyle sectors remained resilient as exemplified by some leasing activities in the city. To name a few, Muji leased 1,200 sq m in Suning Plaza for expansion, and the Colorist leased an area of 100 sq m in Show Park. A series of mid-to high-end fashion and skincare retail brands, e.g., Puria, Michael Kors and Clarins, were brought into Suning Plaza Phase II, as the project continued to undergo a trade-mix upgrade and adjustment campaign since last year.

RENT
Many landlords were willing to offer financial incentives to retain or attract tenants, especially for their anchors. By the end of 1H/2020, the citywide average first-floor rent fell by 3.7% HoH to RMB452.3 per sq m per month.

OUTLOOK
Three new shopping centres with a combined retail GFA of approximately 402,900 sq m are scheduled for debut in 2H/2020, all of which are located in prime retail markets, including Mansion in the Bund, Suning Plaza Area A and C and an IKEA shopping centre. The overall leasing demand is expected to remain softened for the rest of the year. In response, the citywide vacancy rate is expected to increase structurally, and the citywide average rent should continue to decrease in 2H/2020.