

# Retail



## F&B sector hardest hit

Retailers' bargaining power strengthened as a result of the negative impacts of COVID-19 on the retail sector.

- Retail sales of consumer goods for Guangzhou decreased by 14.0% year-on-year (YoY) to RMB132.3 billion by the end of February 2020.
- No new shopping centres debuted during Q1/2020, and the total stock of the Guangzhou retail property market remained at 5.4 million sq m by the end of the quarter.
- The vacancy rate of the Guangzhou retail property market edged up 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.6% by the end of Q1/2020.
- Citywide ground-floor rent decreased by 0.8% QoQ to an average of RMB740.7 per sq m per month in Q1/2020.
- Brands from the F&B sector in Guangzhou showed a more cautious attitude towards expansion, a significant departure from their actions in previous quarters.
- The Guangzhou retail investment market remained quiet due to the negative impacts of COVID-19 and the persistent land tenure issues of listings.
- Considering the plethora of new completions expected in the rest of the year and the further fallout from COVID-19 on retailers, the citywide vacancy rate is anticipated to increase while average rents should structurally decrease.

“The top priority for most retailers is to ensure healthy cash-flows. As a reflection of this fact, several retail brands have temporarily reduced budgets for their Guangzhou expansion to overcome short-term difficulties.”

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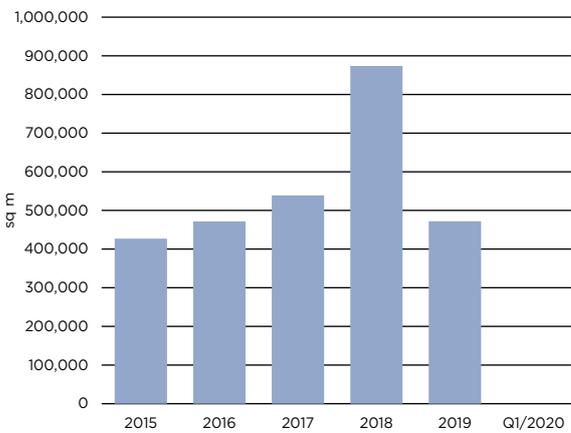
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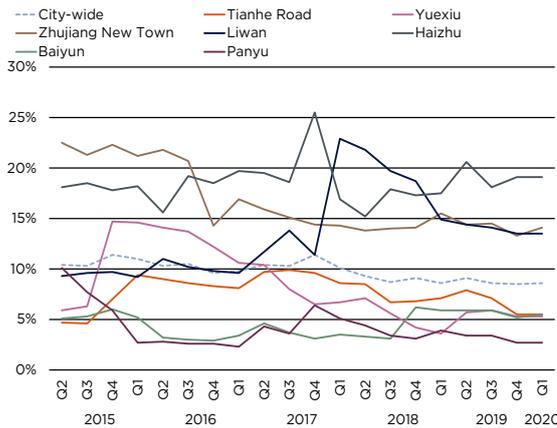
### RETAIL

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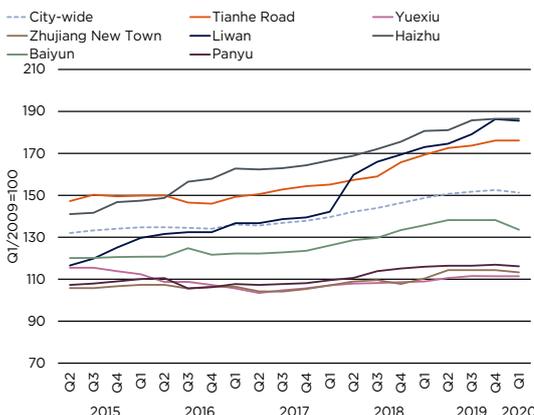
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**GRAPH 1: Total GFA Of New Supply, 2015 to Q1/2020**

Source Savills Research

**GRAPH 2: Vacancy Rates By Submarket, Q2/2015 to Q1/2020**

Source Savills Research

**GRAPH 3: Rental Indices By Submarket, Q2/2015 to Q1/2020**

Note Calculation of rental indices for all submarkets starts from Q1/2009 except for: Zhujiang New Town - Q4/2010; Panyu - Q4/2012

Source Savills Research

**SUPPLY**

Due to the quarantine measures and restrictions on outdoor activity imposed by the government during the COVID-19 epidemic, marketing and advertising activities for new projects were suspended from late January. All new shopping centres that were supposed to debut in Q1/2020 had to postpone their opening dates. As a result, no new supply entered the market, and the citywide total stock remained at 5.4 million sq m by the end of Q1/2020.

**DEMAND**

Despite most shopping centres shortening their business hours from the end of January and stores in several sectors being temporarily closed by the government, no retailers requested for lease withdrawals or reduced their retail spaces in Guangzhou during Q1/2020. Citywide vacancy rate increased by 0.1 of a ppt QoQ to 8.6% as trade and brand-mixes adjustments continued at some retail premises as scheduled.

Different from previous quarters, F&B retailers in Guangzhou turned more cautious towards expansion in Q1/2020. During this quarter, affected by the government's quarantine rules, restaurants' dining-in services were all suspended, with only takeaways being allowed. Some restaurant operators tried to balance operating income and cost and temporarily closed their stores until mid-March when dining-in services were gradually being permitted to resume. According to the China Cuisine Association, 78% of F&B companies recorded more than 100% YoY revenue loss due to the outbreak of COVID-19. In the current circumstances, F&B retailers had to reconsider their business models and strategies, showing less commitment to expansion during Q1/2020.

Although the F&B sector was hit the hardest, some other non-essential goods retailers and those related to the leisure and entertainment sectors also suffered from the negative impacts of COVID-19. The customer flow of shopping centres declined significantly due to government-enforced city and nationwide quarantine measures. Many leading retailers predicted a plummet in operating revenue for the Q1/2020. For example, LVMH and Kering forecasted 10% to 20% YoY decrease in their Q1/2020 revenue. This,

however, could be more serious for small- and medium-sized retail brands, especially those with lower profit margins. Therefore, protecting cash-flow became the top priority for most retailers. With this underlining condition, the Guangzhou retail property market witnessed several brands temporarily reduced budgets for their expansions to overcome the short-term difficulties.

**RENT**

At the beginning of the outbreak, some landlords in Guangzhou provided their tenants with periodical rental deductions or discounts to help them survive from the negative impacts.

Meanwhile, retailers' bargaining power strengthened as the negative impact of COVID-19 emerged during Q1/2020. By the end of the quarter, citywide average rent edged down by 0.8% QoQ to RMB740.7 per sq m per month. The average rent in prime areas decreased by 0.3% QoQ to RMB1,457.3 per sq m per month, while that of non-prime areas decreased by 1.1% QoQ to RMB336.4 per sq m per month.

**INVESTMENT**

Overall, the Guangzhou retail property investment market was quiet not only because there were no shopping centre deals announced during this quarter, but also the repercussions of COVID-19. Taking this recent pandemic development of the COVID-19 and its negative impacts on the retail sector into consideration, investor sentiment was dented to some extent. Meanwhile, it remained challenging to many investors as to how they could overcome the balance of their investment and project disposal when many projects' residual land tenures were set to expire within their investment timeline.

**OUTLOOK**

Although completion dates of some new projects have been postponed, new supply is expected to reach approximately one million sq m in 2020. The plethora of new completions, most of which are located in non-prime areas, and the negative impacts of COVID-19 are expected to increase the citywide vacancy rate and structurally decrease average rents.

**TABLE 1: Selected Future Supply in 2020**

PROJECT	SUBMARKET	RETAIL AREA (SQ M)
Hopson One	Zengcheng	138,000
Lumina	Yuexiu	116,000
Cadre Incity	Zengcheng	110,000
Yue City	Liwan	280,000

Source Savills Research