COVID-19’s impact becomes more pronounced

Cosmetics brands with enhanced financial capability expanded notably during Q2/2020.

• Retail sales of consumer goods for Guangzhou decreased by 11.9% year-on-year (YoY) to RMB342.3 billion by the end of May 2020.

• No new shopping centres debuted in Q2/2020, and the citywide total retail stock remained at 5.4 million sq m.

• During Q2/2020, the negative impact of the COVID-19 pandemic became more pronounced, pushing up the citywide vacancy rate by 2.1 percentage points (ppts) quarter-on-quarter (QoQ) to 10.7%.

• The citywide ground-floor average rent decreased by 0.3% QoQ on an index basis to RMB737.7 per sq m per month in Q2/2020.

• Despite the pandemic-hit economy, cosmetics brands grew their businesses and expanded operations in Guangzhou in Q2/2020.

• More international brands were able to grow their sales revenues and fulfil their China expansion plans in Guangzhou amidst the COVID-19 pandemic, leveraging on the continually growing consumer base and taste (for fashion) in the locality.

• Although enquiry volumes and site visits recovered in the Guangzhou retail investment market, the investment sales market remained quiet and no en-bloc sales transactions were announced in Q2/2020.

• Considering new supply pipeline in 2H/2020 and the impact of COVID-19 on most retailers, the citywide vacancy rate is anticipated to increase while average rents should structurally decrease.

“Although enquiry volumes and site visits recovered in the Guangzhou retail investment market, the investment sales market remained quiet, and no en-bloc sales transactions were announced during the quarter.”

CARLBY XIE, SAVILLS RESEARCH

Savills Research

Guangzhou – July 2020

Retail
Retail

SUPPLY
During Q2/2020, COVID-19 had a negative impact on the leasing progress of new shopping malls that were supposed to debut earlier in 2020, and landlords had to postpone the opening date of these new projects accordingly. As a result, no new shopping malls entered the market, and citywide total stock remained at 5.4 million sq m by the end of Q2/2020.

DEMAND
Overall, the negative impact of COVID-19 on Guangzhou’s retail market became glaringly apparent during Q2/2020. A considerable amount of small- to medium-sized retail stores in the fashion and F&B sectors had to close during the quarter, leading the citywide vacancy rate to increase by 2.1 ppts QoQ to 10.7%.

Some retailers with enhanced financial capability expanded notably during Q2/2020. For example, Yatsen, the parent company of Perfect Diary, completed its latest round of fundraising in April, facilitating Perfect Diary in opening new stores in Luogang Wanda Plaza and CapitaMall SKY+, as well as launching its new brand Abby’s Choice in Grandview Mall during Q2/2020. Some other cosmetics brands also opened up a handful of new stores in Guangzhou, enabled by the brand’s franchising operation model, as were cases with cosmetics collection brands Wow Colour and The Colorist.

More international brands were able to grow their sales revenues and fulfill their China expansion plans in Guangzhou amidst the COVID-19 pandemic, leveraging on the continually growing consumer base and taste (for fashion) in the locality. For example, Alexander McQueen tapped into the Guangzhou market by taking up a retail space at Taikoo Hui. Hermes reopened its Guangzhou store at the same shopping mall space at Taikoo Hui. Adidas launched its new brand Abby’s Choice in Grandview Mall during Q2/2020. Some other cosmetics brands also opened up a handful of new stores in Guangzhou, enabled by the brand’s franchising operation model, as were cases with cosmetics collection brands Wow Colour and The Colorist.

RENT
Although the market witnessed some small- to medium-sized brands to withdraw from their leased space during the quarter, landlords in Guangzhou remained reluctant to lower rents. As a result, citywide average rent only edged down by 0.3% QoQ on an index basis to RMB737.7 per sq m per month.

INVESTMENT
Although investor enquiry volumes and site visits recovered in the Guangzhou retail investment market, the investment sales market remained quiet and no en-bloc sales transactions were announced in Q2/2020. The persistent discrepancy of price expectations between investors and landlords remained the key issue in completing deals. Meanwhile, limited investable and salable opportunities, as well as the short residual land tenure of most available opportunities, were the remaining difficulties for investors to overcome.

OUTLOOK
The overall retailer sentiment on the market is expected to remain weak, and many business/ store expansion plans should continue to be put on hold given the COVID-19 pandemic. With the limited leasing demand, most landlords should continue to feel the pinch when executing their leasing strategies and plans during 2H/2020. On the other hand, although completion dates of new projects were mostly postponed, new supply in 2H/2020 is expected to amount to 424,000 sq m, leading the citywide vacancy rate to increase and the average rent to structurally decrease.

TABLE 1: Selected Future Supply in 2H/2020

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>SUBMARKET</th>
<th>RETAIL AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wanbo Teemall</td>
<td>Panyu</td>
<td>150,000</td>
</tr>
<tr>
<td>Sihai Cheng</td>
<td>Panyu</td>
<td>80,000</td>
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Source: Savills Research