International brands increase market penetration

The rebounded citywide net take-up and the narrowing quarter-on-quarter rental decline exhibited the momentum of the market’s recovery.

- Shenzhen’s retail sales saw a year-on-year (YoY) decline of 10.3% between January and August, totalling RMB324.0 billion.
- Two quality shopping centres in Nanshan, Gateway One Shopping Centre Phase II and Baoneng Global, comprising a total of 192,000 sq m debuted in Q3/2020.
- The total stock of the Shenzhen retail property market expanded by 3.9% quarter-on-quarter (QoQ) to approximately 5.2 million sq m as a result.
- On the back of the contained COVID-19 and the resuming footfall in Shenzhen, the market's net take-up turned positive, rebounding to 51,216 sq m in Q3/2020.
- The citywide average vacancy rate continued to climb to 9.8%, up 2.5 percentage points (ppts) QoQ, due to the ongoing strategic adjustments by both landlords and tenants.
- Market activities by luxury and affordable-luxury brands from a variety of sectors increased during the quarter.
- The citywide average ground-floor rent edged down by 0.1% QoQ on a rental index basis to RMB663.6 per sq m per month by the end of Q3/2020.
- The recent supportive policy exclusively designated for Shenzhen’s development is expected to exert a profound and positive influence on the market, leading to more market activity in the real estate sector.

“The taking the pros of the city as China’s tech hub and the reform and opening-up model city, Shenzhen has attracted many international brands to exercise their innovative strategies in the digital age and against the backdrop of fast-changing consumer behaviour.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY
Two quality shopping centres in Nanshan entered the market in Q3/2020. One was the Gateway One Shopping Centre Phase II, with a retail GFA of 60,000 sq m and full occupancy, and the other was the Baoneng Global, with a retail GFA of 132,000 sq m and a single-day sales revenue of RMB15 million on its debut day. With the new completions, the total stock of the market increased by 3.9% QoQ to approximately 5.2 million sq m by the end of Q3/2020.

DEMAND
On the back of the contained COVID-19 and the resuming footfall in Shenzhen, the citywide net take-up turned positive, rebounding to 51,216 sq m in Q3/2020—a stark contrast compared to the negative values in Q1/2020 and Q2/2020. This was partially attributable to the better-than-expected performances of the two new projects.

On the other hand, international luxury and affordable-luxury brands witnessed great market potential in Shenzhen, as the demand for luxury consumption was locked up in the locality amidst the pandemic. In addition, international and affordable-luxury brand-mixes and the number of stores were relatively limited. These all implied a great expansion opportunity for the brands.

Mixc Shenzhen Bay was one of the projects to take advantage of the trend, attracting multiple luxury fashion brands such as Burberry, Roger Vivier and Balenciaga to open their new stores at the property during Q3/2020. Dior also took up space and initiated its fit-out work for its second Shenzhen fashion store in Mixc Shenzhen Bay at the same time. Among the above-mentioned, Burberry debuted its ‘new normal’ store by partnering with Tencent—its first ‘social retail store’ and its first Asian Thomas’s Café—offering comprehensive shopping experience through connecting offline and online channels and interacting with the F&B sector. Similarly, Mercedes-Benz opened its first southern China restaurant called Mercedes Me at the Mixc World, and Wedgwood, a fine porcelain and luxury accessories brand from England, debuted its first global experiencing boutique ‘Tea Room’ at the Mixc during Q3/2020.

International brands were actively applying the fresh ideas of ‘first stores’, ‘flagship stores’ and ‘concept stores’ to Shenzhen’s market with focus paid towards customers’ experience. Known as the tech hub of China and a young city with residents’ average age at 32.5, Shenzhen attracted many more international brands to exercise their innovative strategies in the digital age and against the backdrop of the fast-changing consumer behaviour.

In addition, international brands from the skincare, cosmetics and perfume sector took ambitious moves during the quarter, as evidenced by Bvlgari, Chanel, Dior, La Mer and Sephora’s expansion activities in Shenzhen’s retail market.

Despite the notable expansion activities by many existing and new brands in Shenzhen during Q3/2020, an increasing number of existing tenants losing their competitiveness had to forgo lease renewals, and a handful of landlords continued their strategic adjustments. As a consequence, the citywide average vacancy rate rose by 2.5 ppts QoQ to 9.8%—a new historical high.

RENTS
The citywide average ground-floor rent edged down by 2.1% QoQ on a rental index basis, to RMB663.6 per sq m per month by the end of Q3/2020. The trivial decrease mainly resulted from the collective impact of the new injections in the emerging areas and of most landlords’ steady rental expectations relative to the previous quarters.

INVESTMENT
The persistent policy support enhanced the attractiveness of the Shenzhen property market, with some core and core-plus investment funds showing interest in the local retail sector. It should be envisaged that the scarcity of the saleable volume and affordable-luxury brands witnessed the scarcity of the saleable volume and affordable-luxury brands witnessed of quality retail projects and high prices continued to ward off the entry of many investors. Therefore, the investment market of the sector remained calm, with no en bloc sales transactions being officially announced during Q3/2020.

MARKET OUTLOOK
Two shopping centres, with a total retail GFA of 165,000 sq m, are expected to debut during Q4/2020. Supported by the ongoing market recovery, the new projects are anticipated to achieve their targeted occupancy. Overall, slowing new supply pipeline in conjunction with the recovering leasing demand are expected to facilitate a more stable rental value by the end of Q4/2020. The calling power of international luxury brands and their increasing penetration in the local market are expected to synergise retail brands’ and footfall’s clustering effects, benefiting all market players in property development, operations, investment and divestment.